

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

INSULATORS AND ASBESTOS WORKERS)
LOCAL NO. 14 PENSION FUND,)
Derivatively On Behalf Of 3M Company,) Civil Action No. 07-416 (GMS)
)
Plaintiff,)
)
v.)
)
GEORGE W. BUCKLEY, LINDA G.)
ALVARADO, VANCE D. COFFMAN,)
MICHAEL L. ESKEW, W. JAMES FARRELL,)
HERBERT L. HENKEL, EDWARD M.)
LIDDY, ROBERT S. MORRISON, AULANA)
L. PETERS, ROZANNE L. RIDGEWAY,)
PATRICK D. CAMPBELL, MOE S. NOZARI,)
FREDERICK J. PALENSKY, RICHARD F.)
ZIEGLER,)
)
Defendants,)
)
and)
)
3M COMPANY, a Delaware Corporation,)
)
Nominal Defendant.)

DECLARATION OF PHILIP A. ROVNER

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Dated: September 10, 2007

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**IN THE UNITED STATES DISTRICT COURT
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INSULATORS AND ASBESTOS WORKERS)
LOCAL NO. 14 PENSION FUND,)
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ZIEGLER,)

Defendants,)

And)

3M COMPANY, A Delaware Corporation,)

Nominal Defendant.)

DECLARATION OF PHILIP A. ROVNER

I, Philip A. Rovner, declare as follows:

1. I am a member of the law firm of Potter Anderson & Corroon LLP, counsel of record for Defendants George W. Buckley, Patrick D. Campbell, Moe S. Nozari, Frederick J. Palensky and Richard F. Ziegler (collectively, "Officer Defendants").

2. I make this declaration in support of the 3M and Individual Defendants' Joint Answering Brief in Opposition to Plaintiffs' Motion for Summary Judgment.

3. Attached hereto as Exhibit A is the Manual of Publicly Available Telephone Interpretations, Main Manual, Section N, "Proxy Rules and Schedule 14A," July

1997, Number 34 "Schedule 14A, Item 10(a)(2)(iii)" published by the Securities and Exchange Commission's Division of Corporation Finance. I declare this is a true and accurate copy.

4. Attached hereto as Exhibit B are pages 67-68 of Analysis of Financial Statements (2d ed. 2006) by Pamela P. Peterson and Frank J. Fabozzi. I declare this is a true and accurate copy.

5. Attached hereto as Exhibit C are copies of Form 8-K filings made by 3M with the U.S. Securities and Exchange Commission dated 4/26/07, 1/30/07 and 10/20/06. I declare these are true and accurate copies.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on September 10, 2007

A handwritten signature in black ink, appearing to read "Philip A. Rovner", is written over a horizontal line.

Philip A. Rovner

**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE**

CERTIFICATE OF SERVICE

I, Philip A. Rovner, hereby certify that on September 10, 2007, the within document was filed with the Clerk of the Court using CM/ECF which will send notification of such filing(s) to the following; that the document was served on the following counsel as indicated; and that the document is available for viewing and downloading from CM/ECF.

BY HAND DELIVERY

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EXHIBIT A

SEC Division of Corporation Finance

Manual of Publicly Available Telephone Interpretations

N. PROXY RULES AND SCHEDULE 14A

1. Proxy Rules

A cooperative subject to the Exchange Act has a procedure for sending an advisory ballot to its members seeking their recommendations on the 15 persons to be nominated to the board of directors. Counsel was informed that the advisory vote material would constitute the first step in the election of directors. Accordingly, the advisory ballot would have to meet the requirements of Regulation 14(a) and the accompanying material would have to comply with Schedule 14A.

2. Proxy Rules

A "search letter" is not deemed to be proxy soliciting material where it is sent to a broker by an insurgent and only requests information about the number of copies of the insurgent's proxy materials that the broker will need to forward to beneficial owners.

3. Proxy Rules; Form 10-KSB

A Regulation S-B filer filed a Form 10-KSB indicating that, for the second consecutive year, it failed the same small business issuer eligibility standard. Therefore, it can not use the Regulation S-B reporting system for the following fiscal year. The issuer asked whether its proxy statement could still exclude the executive compensation and other information that a small business issuer may exclude in its Form 10-KSB (which is often incorporated by reference into that annual report by means of the later proxy statement). Yes, for two reasons. First, if the Form 10-KSB had not been completed in reliance upon the later incorporation by reference, that information could have been excluded. Second, during the prior fiscal year the issuer did not know that it would have to prepare that additional information, so it would be inappropriate to retroactively apply the disclosure requirements.

4. ** Rule 14a-2(b)(2) **

The following advice was given regarding conduct of a limited solicitation under the "ten-person" exemption set forth in former Rule 14a-2(b)(1), now Rule 14a-2(b)(2):

1. Providing a form of proxy to a person in response to that person's unsolicited call based on a Schedule 13D filing and news reports is not counted against the ten person limit because the communication is not a solicitation pursuant to Rule 14a-1(l)(2).
2. An insurgent intending to engage or engaging in a solicitation of no more than 10 persons under Rule 14a-2(b)(2) should remain mindful that its filing and dissemination of a Schedule 13D -- depending on the content of this document and other relevant facts and circumstances -- may be deemed to constitute a more widespread "general" solicitation that may preclude reliance upon Rule 14a-2(b)(2).
3. If title to securities is transferred by the transfer agent after the record date, but securities were purchased and paid for prior to such date, efforts by the purchaser to obtain proxies from the

sellers will be deemed an exempt solicitation under Rule 14a-2(a)(2), and will not count toward the ten-person limitation of Rule 14a-2(b)(2).

4. A solicited person holding in several nominee accounts will be deemed one "person" for purposes of Rule 14a-2(b)(2).

5. Rule 14a-3

A special meeting of a limited partnership for the purpose of adding a general partner would be analogous to an annual meeting to elect directors, or a special meeting in lieu of an annual meeting to elect directors for a corporation. Accordingly, an annual report prepared in accordance with Rule 14a-3 should be provided to the limited partners in connection with the meeting. However, in no event would the partnership be required to provide more than one annual report to the limited partners during any fiscal year.

6. Rule 14a-3

Information required in the annual report to shareholders required by Rule 14a-3 to be distributed in connection with the same meeting of shareholders may be included in proxy statement contained in a Form S-4 registration statement. No separate annual report is required.

7. Rule 14a-3(b)

A limited partnership registered under Section 12(g) of the Exchange Act, which does not hold director elections and therefore does not solicit proxies for the elections of directors, is not required by Rule 14a-3 to file with the Commission copies of its annual report to security holders.

8. Rule 14a-3(c); Form 10-K

The annual report to shareholders must be filed as an exhibit to Form 10-K only if information contained in the annual report is incorporated by reference in the Form 10-K or the registrant specifically requests that the annual report be treated as part of the proxy soliciting material. Note, only those portions of the annual report incorporated by reference or specifically requested by the registrant to be treated as proxy soliciting material are deemed to be filed as part of the Form 10-K.

9. Rule 14a-4

The authority to cumulate votes among directors, in the discretion of the proxy, need not be printed in bold-face type on the proxy card itself pursuant to Rule 14a-4(b)(1). There should, however, be appropriate disclosure of cumulative voting in the proxy statement.

10. Rule 14a-6

The exemption from the requirement to file proxy materials in preliminary form for solicitations relating only to the approval or ratification of a compensation plan or amendments does not extend to the ratification or approval by security holders of awards made pursuant to such plans.

11. Rule 14a-6(a)

The caller raised the question whether a preliminary proxy statement need be filed in connection with a proposed corporate name change to be submitted for shareholder approval at the issuer's annual meeting, along with a shareholder proposal and the election of directors. While the latter two items fall within one of five Rule 14a-6(a) exclusions from the preliminary proxy filing requirement, a change in the issuer's name to delete the surname of a long-dead founder that bore no relation to a change in the present membership of the board of directors would not appear to qualify for exclusion under the literal reading of the rule.

As set forth in Exchange Act Rel. No. 25217 (Dec. 21, 1987), the underlying purpose of these exclusions is "to relieve registrants and the Commission of unnecessary administrative burdens and processing costs associated with the filing the processing of proxy material that is currently subject to selective review in preliminary form." Consistent with this purpose and the reason for the name change proposal, the Division staff advised the requestor that a preliminary proxy filing relating to the planned name change was not required.

12. Rule 14a-6(a)

Where a public utility holding company is asking shareholders to elect directors, ratify the selection of auditors and approve a charter amendment, and the solicitation with respect to charter amendment is exempt from proxy rules under Rule 14a-2(a)(5), the company is not required to file preliminary proxy material.

13. Rule 14a-6(a)

The "10 day" period specified in the rule relates to calendar days rather than business days.

14. Rule 14a-6

For purposes of calculating the "10 day" period in Rule 14a-6, the date of filing is day one for purposes of counting the 10 calendar days. Ten calendar days must be complete before the materials are sent or given to security holders. Accordingly, the material may be sent or given to security holders at 12:01 a.m. on day eleven. As an example, assume the preliminary materials are filed on January 6. Calendar day ten, for purposes of Rule 14a-6, would be January 15, so the materials could be sent or given to security holders at 12:01 a.m. on January 16.

15. ** Rule 14a-6; Form S-4 **

A registrant can use its S-4 proxy statement/prospectus as a red herring. Since 1992, registrants have been able to solicit immediately upon filing of a preliminary proxy statement (absent invocation of confidential treatment under Rule 14a-6(e)(2)) rather than waiting 10 days pursuant to Rule 14a-6(a), so long as the proxy card (whether in preliminary or definitive form) is not circulated. Because a vote on the transaction described would amount to an investment decision with respect to the securities being registered, no proxy card could be sent until after the registration statement became effective and the final prospectus was furnished.

16. ** Rule 14a-6; Form S-4 **

An issuer filed a registration statement on Form S-4 that contained its proxy material. After the effective date of the registration statement, the issuer decided to mail an additional letter to

shareholders in connection with the transaction. This letter is filed as additional soliciting material pursuant to Rule 14a-6 upon first use.

17. **** Rule 14a-9; Item 21 of Schedule 14A ****

When a company offers shareholders the option of submitting a proxy by Internet, the proxy statement should include a description of Internet voting procedures and the validity under applicable state law of proxies granted pursuant to this mechanism of electronic transmission. Rule 14a-9 requires similar disclosure on the proxy card.

18. ** Rule 14a-11 **

A parent that creates a subsidiary for the purpose of engaging in a proxy solicitation itself would be a participant in the solicitation pursuant to Rule 14a-11(b)(2) and Instruction 3 to Item 4 of Schedule 14A.

19. ** Schedule 14A **

A proxy statement requesting shareholder approval of the elimination of preemptive rights involves the modification of a security for purposes of Item 12 of Schedule 14A (and may be tantamount to creation of a new security, depending on the facts and circumstances, thereby raising an issue regarding Securities Act registration absent an exemption). Thus, the financial statement requirements of Item 13 would apply.

20. Schedule 14A

An issuer recently solicited proxies for the election of 15 directors. In about three months, the issuer hopes to acquire another company, and will hold a special meeting to elect one of the officers of the newly acquired company as a sixteenth director. The issuer asked whether the proxy material for the special meeting would have to include the information required by Items 6 and 7 of Schedule 14A for the 15 recently elected directors. The issuer was informed that Schedule 14A would require that information to be included in the proxy statement.

21. Schedule 14A, Note A

B is to be merged into A in a Rule 145 transaction. B's shareholders will be voting to approve the transaction and will become shareholders of A. A's shareholders are not voting on the proposed transaction. Three of B's directors will become directors of A. Pursuant to Note A to Schedule 14A the Form S-4 should contain the information required by Items 6 and 7 of Schedule 14A as to the A directors.

22. Schedule 14A, Item 5(d)

A "street name" holder of record (like Cede & Co.) of more than 5% of a company's stock need not be disclosed in a proxy statement where such person is not deemed to be the beneficial owner of such shares pursuant to Rule 13d-3(d)(2).

23. Schedule 14A, Items 6 and 7

A company intends to solicit proxies for a special meeting at which management will propose a classification of the company's board of directors. Information need not be furnished pursuant to Items 6 and 7 of Schedule 14A, provided that the company submits the entire board to shareholders for their approval at the next annual meeting. This position was taken because the vote on the classification of the board would not enable any of the existing directors to serve for any longer term than the term for which they originally had been elected by shareholders.

24. ** Schedule 14A, Item 7(f) **

The "total number of meetings of the board of directors" specified as the basis for calculation of director's attendance in Item 7(f) does not include board action by written consent.

25. Schedule 14A, Item 10

Any action on a compensation plan requires complete Item 10 disclosure. If the action proposed is just an amendment to an existing plan (e.g., adding shares available under an option plan), the Item 10 disclosure still must include a complete description of all material features of the plan (Item 10(a)(1)) as proposed to be modified, including the material differences from the existing plan (Instruction 2).

26. ** Schedule 14A, Item 10 **

Full Item 10 disclosure would be required where a plan is being amended to add a new class of participants. See Instruction 2.

27. ** Schedule 14A, Item 10, Instruction 3 **

If a plan to be acted upon is set forth in a written document, it should be filed along with the proxy statement and form of proxy. It does not have to be provided to security holders unless it is a part of the proxy statement.

28. Schedule 14A, Item 10(a)(2)

Item 10(a)(2)(i) disclosure regarding benefits or amounts that will be received by or allocated to each of the named executive officers and certain groups typically will only be called for if the plan being acted upon is: (i) a plan with set benefits or amounts (e.g., director option plans); or (ii) one under which some grants or awards have been made by the board or compensation committee subject to shareholder approval (e.g., action is to add shares available under an existing option plan, because there are not enough shares remaining under the plan to honor exercises of all outstanding options).

29. Schedule 14A, Item 10(a)(2)

If the New Plan Benefits Table is required, all of the individuals and groups for which award or benefit information is required should be listed (including those for which the amount to be reported is "0").

30. Schedule 14A, Item 10(a)(2)

Other information (such as that called for by Item 10(b)) should not be mixed in with that required to be in the New Plan Benefits Table.

31. Schedule 14A, Item 10(a)(2)

Additional columns should be added to the New Plan Benefits Table for each plan for which information is required.

32. Schedule 14A, Item 10(a)(2)

For option plans, no "dollar value" information should be given in the Table (*i.e.*, no 5%/10% or Black-Scholes valuation). The number of shares underlying options should be provided in the "Number of Units" column.

33. Schedule 14A, Item 10(a)(2)(iii)

The language of Item 10(a)(2)(iii) relating to "if the plan had been in effect" contemplates plans that were not in effect for the prior year. Accordingly, Item 10(a)(2)(iii) disclosure of actual awards under an existing plan for the last year is not required. Disclosure under this item would be required when action is being taken on an existing plan only where the existing plan is being amended to alter a formula or other objective criteria to be applied to determine benefits.

34. Schedule 14A, Item 10(a)(2)(iii)

As with prospective benefits under Item 10(a)(2)(i), the "pro forma" presentation of what would have been received under the plan is not applicable where awards are discretionary (and thus, not determinable).

35. Schedule 14A, Item 10(a)(2)(iii)

This disclosure requirement applies only to plans that have objective criteria for determining the compensation thereunder, so that the registrant can take the criteria and, assuming the variables of the last year, determine what would have been paid under the plan had it been in place then. An example would be a bonus or long-term incentive plan with award opportunities based upon a fixed percentage of salary and actual payment earned based upon corporate performance against fixed measures (such as percentage growth in earnings over previous years).

36. Schedule 14A, Item 10(b)(2)(i)

Disclosure should address each item required ((A)-(E)) for each grant of or plan containing options, warrants, or rights submitted for shareholder approval.

37. Schedule 14A, Item 10(b)(2)(i)(D)

"Market value of the securities underlying the options, warrants or rights as of the latest practicable date" may be presented as either: (i) market price per share or (ii) aggregate market value of the total number of shares underlying all options (granted or available for grant) under the plan.

38. Schedule 14A, Item 10(b)(2)(ii)

The requirement to "state separately the amount of such options received or to be received" by each named executive officer, each director nominee, and certain other persons and groups only covers options under the plan upon which action is being taken. For example, the Item would be inapplicable if a new plan were being considered, because there have been no grants under that new plan to report. No disclosure is required if a new plan is being considered, even if the company has other plans under which there have been or will be options granted, and even if a previous or existing plan appears identical to the new plan in all but name.

39. Schedule 14A, Item 10(b)(2)(ii)

This disclosure does not have to be in a table; narrative disclosure is acceptable.

40. Schedule 14A, Item 10(b)(2)(ii)

This Item covers all options received at any time (not just last year), and options to be received (if determinable) by the specified persons and groups. The information should be given for each separate individual and group (including those for which the amount of options received or to be received is "0").

41. Schedule 14A, Item 13

A proxy statement seeking shareholder approval of an increase in authorized common shares and the elimination of an authorized but unissued class of preferred stock would not require the inclusion or incorporation of financial statements. See Item 13, Instruction 1 of Schedule 14A.

42. Schedule 14A, Item 13(b)(2)

The Division staff took the position that the proxy statement may incorporate by reference from a prospectus the information required by paragraph (a) of this Item despite the fact that Item 13(b)(2) refers only to a "previously-filed statement or report".

43. ** Schedule 14A, Item 13 (Instruction 1) and Item 14 (Instruction 2) **

The financial statements required by Item 13 of Schedule 14A were not required in a proxy statement filed in connection with a merger intended solely to change the issuer's domicile from one state to another.

44. Schedule 14A, Item 14(a)(12)

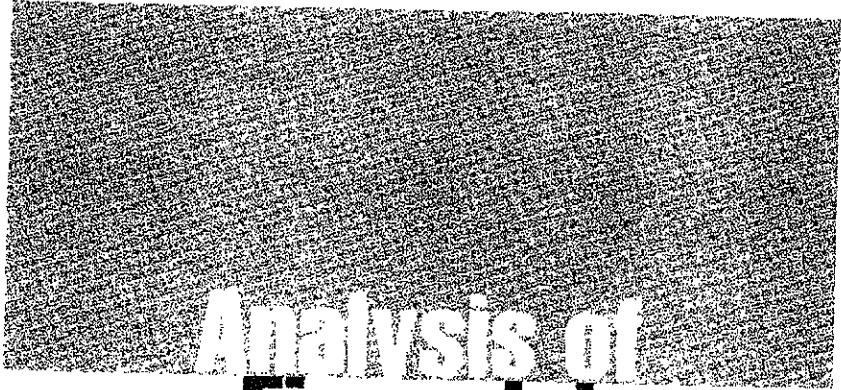
Counsel inquired as to whether disclosure of market prices was required in a Delaware reincorporation proxy statement. The Division staff advised that if the transaction would have a material effect on the securities, the disclosure required by Item 14(a)(12) would be required.

45. **** Schedule 14A, Item 21; Rule 14a-9 ****

When a company offers shareholders the option of submitting a proxy by Internet, the proxy statement should include a description of Internet voting procedures and the validity under

applicable state law of proxies granted pursuant to this mechanism of electronic transmission.
Rule 14a-9 requires similar disclosure in the proxy card.

EXHIBIT B



Analysis of Financial Statements

Second Edition

PAMELA P. PETERSON
FRANK J. FABOZZI



WILEY

John Wiley & Sons, Inc.

ing in a more dramatic fashion in the first quarter of 1998.⁸ The SEC required, among other things, that Sunbeam restate its 1997 results. We present both the "as reported" and "as restated" revenues for Sunbeam in Panel B of Exhibit 3.3. You can see the shifting forward of revenues that took place in 1997, which moved the revenues forward in time.

Another example of channel stuffing is that alleged of ClearOne Communications, Inc. in 2001, in which the company forced distributors to take delivery of product that they did not want and then made verbal agreements for distributors to pay for the products as they sold them.⁹ Still another example is the case of Bristol-Myers Squibb Company, which settled a civil action in 2004 regarding channel stuffing. In this case, the company was stuffing the channel near the end of each quarter in order to meet analysts' earnings estimates.¹⁰ In these cases, there was an increase in revenues and net income that was a sacrifice of future years' revenues and net income.

Extraordinary and Nonrecurring Items

In general, a company's earnings and cash flows should be generated from the operations of its business, rather than through nonrecurring means. A close examination of the sources of revenues in the income statement and notes may reveal nonoperating gains and losses. These nonoperating items are presented under various names, including "special," "nonrecurring," and "unusual."

Nonrecurring items are the result of unusual events and are reported as part of operating expenses. For example, if a company that operates retail stores closes several of its stores, it would record a charge for the costs associated with these closings. As another example, a company that is on the losing side of a lawsuit would report the settlement or penalty as a nonrecurring charge against income. A special type of non-recurring item is the voluntary effect of a change in accounting principle. If the company changes an accounting principle in the current period, the company applies the change retrospectively, revising past earnings to reflect the effect in each period presented.¹¹ If it is not prac-

⁸ John A. Byrne, "Al Dunlap Self-Destructed," *Business Week*, 6 July 1998, pp. 58-64, and Martha Brannigan, "Sunbeam Concedes 1997 Statements May be Off," *Wall Street Journal*, 1 July 1998, p. A4.

⁹ Securities and Exchange Commission v. ClearOne Communications, Inc., Frances M. Flood, and Susie Strohm, Civil No. 2 103 CV 55 DAK.

¹⁰ Securities and Exchange Commission v. Bristol-Myers Squibb Company, Civil Action No. 04-3680 (D.N.J.), filed August 4, 2004.

¹¹ This is prescribed by Statement of Financial Accounting Standards No. 154, which is in effect Previous to Statement of Financial Accounting Standards (SFAS) No. 154, a company would report the cumulative effect of the accounting change as a charge against earnings in the income statement.

tical to represent the cumulative effect of the change to earnings in the current or recent years (say, because the effect cannot be attributed to a particular year), the entire charge is presented in the balance sheet as an adjustment to shareholders' equity.¹²

Extraordinary items are defined as unusual and infrequent and are presented in the income statement after continuing operations and net of tax. There is a subtle distinction between nonrecurring items that are included in operating results and extraordinary items that are reported in the nonoperating portion of the income statement.

These nonrecurring items are unavoidable and, with recent changes in accounting standards, may become more frequent. From the point of view of the financial analyst, these items are important in at least two respects:

1. These items make the bottom line earnings more volatile and, hence, more difficult to use as a basis for predictions about future earnings.
2. These items may signal important company events, such as write-downs of inventory or fixed plant assets.

In the 1980s and 1990s, many companies had significant restructuring charges and may have used these to manage earnings. However, some companies, such as IBM, now consider restructuring charges part of their normal business and do not separate these changes as special.¹³

Further, many companies report nonrecurring and extraordinary items that have become quite ordinary, reporting gains and losses each year arising from these sources. This makes it difficult for the analyst to determine the result of the operations of the company and what is simply transitory.

Consider the example of Eastman Kodak. We show Eastman Kodak's operating earnings and net income in Exhibit 3.4 over the period 1990 to 2004. We calculated operating earnings for this example as the difference between revenues and the sum of cost of goods sold, selling, general and administrative expenses, and research and development costs. The difference between operating earnings and net income is largely the result of nonrecurring charges including:

■ Restructuring costs

¹² A retrospective change in earnings due to an accounting change is not the same thing as a restatement of earnings. Restatements are due to errors or fraud, not changes in accounting principle.

¹³ Prior to 1994, IBM routinely reported substantial restructuring charges each year. Since 1994, however, they no longer break these items out separately.

EXHIBIT C-1

8-K 1 a07-12418 18k.htm 8-K

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, DC 20549

FORM 8-K

**CURRENT REPORT PURSUANT
TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Date of report (Date of earliest event reported): **April 26, 2007**

3M COMPANY

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation)

File No. 1-3285
(Commission File Number)

41-0417775
(IRS Employer Identification No.)

3M Center, St. Paul, Minnesota
(Address of Principal Executive Offices)

55144-1000
(Zip Code)

(651) 733-1110
(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-
-

Item 2.02. Results of Operations and Financial Condition

On April 26, 2007, 3M Company issued a press release reporting its sales and earnings results for the first quarter ended March 31, 2007 (attached hereunder as Exhibit 99 and incorporated herein by reference).

Item 9.01. Financial Statements and Exhibits

(c) Exhibits

<u>Exhibit Number</u>	<u>Description</u>
99	Press Release, dated as of April 26, 2007, of 3M Company (furnished pursuant to Item 2.02 hereof)

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

3M COMPANY

By: /s/ Gregg M. Larson
Gregg M. Larson,
Associate General Counsel and Secretary

Dated: April 26, 2007

EXHIBIT INDEXExhibit NumberDescription

99

Press Release, dated as of April 26, 2007, of 3M Company
(furnished pursuant to Item 2.02 hereof).

3

EX-99 2 a07-12418_1ex99.htm EX-99

Exhibit 99

FOR IMMEDIATE RELEASE

3M Reports Record First Quarter Sales and Earnings
— First Quarter Reported EPS up 58.1% to \$1.85 per share —

ST. PAUL, Minn. — April 26, 2007 — 3M (NYSE: MMM) today reported record first-quarter 2007 earnings of \$1.4 billion or \$1.85 per share, up 52.2 percent and 58.1 percent, respectively, from the first quarter of 2006. First quarter 2007 net income includes a net gain of \$422 million, or \$0.57 per share, from the sale of the company's branded pharmaceuticals business in Europe, net of various other special items (a-c).

"Our strategy for achieving higher growth while maintaining superior financial returns is working well, as evidenced by this quarter's broad-based growth and profitability," said George W. Buckley, 3M chairman, president and CEO. "Quarterly sales grew by 6.1 percent, reaching an all-time high, and we delivered record net income — all while investing in additional capacity to build and sustain growth in the future. Importantly, we were able to overcome the impact of the pharmaceutical business divestiture, as sales improved by almost 10 percent ex-pharma and earnings grew at double-digit rates. Our exceptionally strong start in 2007 gives me great confidence in our people around the world to keep accelerating growth and leveraging it to the bottom line."

Executive Summary

- Revenues of \$5.9 billion, up 6.1 percent from 2006. Excluding the impact of divested branded pharmaceuticals business, sales increased nearly 10 percent.
- Local currency sales, including the impact of acquisitions, up 7.4 percent from 2006.
- Negative 3.8 percent impact on sales growth due to divestiture of branded pharmaceuticals business.
- Reported operating income for the quarter increased 53.5 percent to \$2.1 billion including \$653 million net benefit from special items (a-c).
- Reported net income of \$1.4 billion up 52.2 percent including \$422 million of after-tax net benefit from special items (a-c).
- Reported earnings per share of \$1.85, up 58.1 percent from 2006 including \$0.57 net benefit from special items (a-c).
- Returned \$1.5 billion to shareholders through cash dividend and repurchase of shares.

Key Financial Highlights

First-quarter worldwide sales in U.S. dollars totaled \$5.9 billion, up 6.1 percent compared to the first quarter of 2006. Local-currency sales including acquisitions increased 7.4 percent, and foreign exchange impacts added 2.5 percent in the quarter. Divestitures, namely the recent sale of the company's branded pharmaceuticals business, reduced reported sales growth by 3.8 percent. Local-currency sales including acquisitions increased 20.4 percent in Health Care, 15 percent in Safety, Security and Protection Services, 8.2 percent in Consumer and Office, 4 percent in Industrial and Transportation, and 1.2 percent in Electro and Communications. Local-currency sales decreased by 0.8 percent in Display and Graphics, largely due to difficult year-on-year comparisons resulting from last year's first-quarter inventory buildup within the LCD industry.

First-quarter net income was \$1.4 billion, or \$1.85 per share, versus \$899 million, or \$1.17 per share, in the first quarter of 2006. Net income and earnings per share increased 52.2 percent and 58.1 percent, respectively. The divested pharmaceuticals business contributed 5 cents per share in

the comparable quarter last year. First quarter 2007 net income included a net profit of \$422 million, or \$0.57 per share, due to a gain on the sale of the branded pharmaceuticals business in Europe that closed in January, net of various other special items (a-c).

"The great strength of our brands, manufacturing capabilities and broad geographic distribution network, combined with the tremendous efforts across the company to invigorate 3M's core businesses are producing tangible results," said Buckley. "Our ability to deliver products that embody innovative 3M technology to make our customers more successful will accelerate growth well into the future."

Business Segment Discussion

Industrial and Transportation

- Sales increased 6.7 percent to \$1.8 billion.
- Sales up 4 percent in local currencies, including 0.9 percent from acquisitions.
- Growth strongest in industrial adhesives and tapes, automotive aftermarket and abrasives businesses.
- Solid international performance with growth led by Europe and Asia Pacific.
- Solid operational performance, with profits up 8.2 percent and operating margin of 23 percent.

Health Care

- Sales of \$962 million, up 24.4 percent excluding impact of divestiture of branded pharmaceutical business.
- Local-currency sales growth of 20.4% including 5.6% from acquisitions; all health care businesses generating significant growth, led by drug delivery systems.
- Pharma divestiture reduced reported sales by 24.9%.
- Operating income increased 12.7% excluding Pharma and special items.
- Sales growing in all geographic regions, led by U.S. and Europe.
- 3M ESPE "Most Innovative Company" in dental industry for second consecutive year.

Display and Graphics

- Sales up slightly to \$921 million, a first-quarter record.
- Outstanding sales and profit performance in commercial graphics.
- LCD industry inventories now better balanced with consumer demand, unlike last year. Optical film sales down year-on-year as a result.
- Observing more rational capital expansion plans from big LCD OEMs.
- Profits were \$295 million; strong operational discipline drove 32 percent margin.

Consumer and Office

- Sales increased 9.9 percent to \$814 million.
 - Local-currency sales growth was 8.2 percent, including a point of growth due to the acquisition of Nylonge.
 - DIY retail channel rebounds from Q4 with double-digit sales and profit growth.
 - Solid growth in consumer mass retail channel.
 - Broad-based sales growth performance led by US and Europe.
 - Awarded "Global Supplier of the Year." by Staples, Inc.
 - Outstanding leverage with profits up 18.1 percent; margins up 150 basis points to 21.7 percent.
-

Safety, Security and Protection Services

- Sales were \$758 million, up 18.7 percent.
- Growth in local currency of 15 percent, including 10 percent from acquisitions, primarily Security Printing Systems, Ltd.
- Broad-based sales growth led by respiratory protection, window film and cleaning solutions for commercial buildings and corrosion protection products.
- Sequential rebound in roofing granules but sales still down year-on-year.
- Intense focus on operational excellence drove a 14.9 increase in profits.

Electro and Communications

- Sales increased 3.6 percent to \$668 million.
- Local-currency growth of 1.2 percent, primarily acquisition-driven.
- Outstanding sales and profit growth in electrical markets, with new products driving growth.
- Double-digit growth in communications markets; global infrastructure build continues to fuel 3M growth.
- Sales declines in flexible circuits and other electronic solutions.
- Relentless focus on productivity drove operating margin of 16.6 percent; margins were a record 19.5 percent excluding special items.

Outlook

3M also reiterated its 2007 sales and earnings expectations. The company continues to expect 2007 earnings per share to be in the range of \$5.20 to \$5.45. This includes an estimated full year 2007 gain, net of costs from special items, of approximately \$0.60 to \$0.70 per share, primarily due to the sale of the company's branded pharmaceuticals business in Europe. 3M also expects full-year, local-currency sales growth, adjusted for the divestiture of its branded pharmaceuticals business, to be between 6 and 10 percent, which includes approximately 1.8 percentage points from acquisitions closed as of today. Including the branded pharmaceuticals sales in 2006, total local-currency sales growth for 2007 is expected to be between 2 and 6 percent.

George W. Buckley, and Patrick D. Campbell, senior vice president and chief financial officer, will conduct an investor teleconference at 9 a.m. Eastern Time (8 a.m. Central Time) today. Investors can access a Webcast of this conference, along with related charts and materials, at <http://investor.3M.com>.

Forward-Looking Statements

This news release contains forward-looking information (within the meaning of the Private Securities Litigation Reform Act of 1995) about the company's financial results and estimates, business prospects, and products under development that involve substantial risks and uncertainties. You can identify these statements by the use of words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "will," and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. Among the factors that could cause actual results to differ materially are the following: (1) worldwide economic conditions; (2) competitive conditions and customer preferences; (3) foreign currency exchange rates and fluctuations in those rates; (4) the timing and acceptance of new product offerings; (5) the availability and cost of purchased components, compounds, raw materials and energy (including oil and natural gas and their derivatives) due to shortages, increased demand or supply interruptions (including those caused by natural and other disasters and other events); (6) the impact of acquisitions, strategic alliances, divestitures, and other unusual events resulting from portfolio management actions and other evolving business strategies, and possible organizational

restructuring; (7) generating less productivity improvements than estimated; and (8) legal proceedings, including significant developments that could occur in the legal and regulatory proceedings described in the company's Annual Report on Form 10-K for the year ended Dec. 31, 2006 (the "Report"). Changes in such assumptions or factors could produce significantly different results. A further description of these factors is located in the Report under Part I, Item 1A, "Risk Factors." The information contained in this news release is as of the date indicated. The company assumes no obligation to update any forward-looking statements contained in this news release as a result of new information or future events or developments.

About 3M – A Global, Diversified Technology Company

Every day, 3M people find new ways to make amazing things happen. Wherever they are, whatever they do, the company's customers know they can rely on 3M to help make their lives better. 3M's brands include Scotch, Post-it, Scotchgard, Thinsulate, Scotch-Brite, Filtrete, Command and Vikuiti. Serving customers around the world, the people of 3M use their expertise, technologies and global strength to lead in major markets including consumer and office; display and graphics; electronics and telecommunications; safety, security and protection services; health care; industrial and transportation.

Scotch, Post-it, Scotchgard, Thinsulate, Scotch-Brite, Filtrete, Command and Vikuiti are trademarks of 3M.

3M Company and Subsidiaries
CONSOLIDATED STATEMENT OF INCOME
(Millions, except per-share amounts)
(Unaudited)

	Three-months ended March 31	
	2007	2006
Net sales	\$ 5,937	\$ 5,595
Operating expenses		
Cost of sales	3,022	2,721
Selling, general and administrative expenses	1,281	1,183
Research, development and related expenses	319	322
Gain on sale of pharmaceuticals business (a)	(786)	—
Total	3,836	4,226
Operating income	2,101	1,369
Interest expense and income		
Interest expense	38	22
Interest income	(28)	(8)
Total	10	14
Income before income taxes and minority interest	2,091	1,355
Provision for income taxes	708	443
Minority interest	15	13
Net income	\$ 1,368	\$ 899
Weighted average common shares outstanding – basic	729.3	754.4
Earnings per share – basic	\$ 1.88	\$ 1.19
Weighted average common shares outstanding – diluted	741.3	768.6
Earnings per share – diluted	\$ 1.85	\$ 1.17
Cash dividends paid per common share	\$ 0.48	\$ 0.46

3M Company and Subsidiaries
SUPPLEMENTAL CONSOLIDATED STATEMENT OF INCOME INFORMATION
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES
(Millions, except per-share amounts)
(Unaudited)

In addition to reporting financial results in accordance with U.S. generally accepted accounting principles (GAAP), the company also discusses non-GAAP measures that exclude special items. Operating income, net income, and diluted earnings per share measures that exclude special items are not in accordance with, nor are they a substitute for, GAAP measures. Special items represent significant charges or credits that are important to an understanding of the company's ongoing operations. The company uses these non-GAAP measures to evaluate and manage the company's operations. The company believes that discussion of results excluding special items provides a useful analysis of ongoing operating trends. The determination of special items may not be comparable to similarly titled measures used by other companies.

The reconciliation provided below reconciles the non-GAAP financial measures with the most directly comparable GAAP financial measures for the three months ended Mar. 31, 2007.

	Three-months ended Mar. 31, 2007		
	Operating income	Net income	Diluted earnings per share
Reported GAAP measure	\$ 2,101	\$ 1,368	\$ 1.85
Special items:			
Gain on sale of pharmaceuticals business in Europe (a)	(786)	(506)	(0.68)
Restructuring actions (b)	12	9	0.01
Environmental liabilities (c)	121	75	0.10
Adjusted Non-GAAP measure	<u>\$ 1,448</u>	<u>\$ 946</u>	<u>\$ 1.28</u>

- (a) In January 2007, 3M completed the sale of its global branded pharmaceuticals business in Europe. 3M received proceeds of \$817 million from this transaction and recognized a pre-tax gain of \$786 million in the first quarter of 2007. In December 2006, 3M completed the sale of its global branded pharmaceuticals business in the United States, Canada, and Latin America region and the Asia Pacific region, including Australia and South Africa. In connection with all of these transactions, 3M's Drug Delivery Systems Division (DDSD) entered into agreements whereby it became a source of supply to the acquiring companies. The Company expects annual revenues of approximately \$100 million from these supply arrangements. Such outsourcing arrangements involve a lower profitability than the other product and service offerings of most of our existing Health Care businesses. Because of the extent of 3M cash flows from these agreements in relation to those of the disposed-of businesses, the operations of the branded pharmaceuticals business are not classified as discontinued operations.

- (b) During the fourth quarter of 2006, the Company completed the identification of restructuring actions to be taken and obtained approvals from the appropriate level of management, resulting in a restructuring charge. In the first quarter of 2007 the Company recorded an additional net pre-tax restructuring charge of \$12 million. The Company incurred additional restructuring expenses, primarily fixed and intangible asset impairments related to the Electro and Communications segment. In the Health Care segment, employee-related restructuring liabilities were adjusted to reflect current estimates of Health Care employee-related restructuring expenses.
- (c) Various environmental regulatory developments occurred during the first quarter of 2007, including increased regulatory activity in Minnesota and the receipt of a permit to begin work addressing perfluorinated compounds in the soil and groundwater at the Company's manufacturing facility in Decatur, Alabama. The Company also recently completed a comprehensive review with environmental consultants regarding its other environmental liabilities which include the estimated costs of addressing trace amounts of perfluorinated compounds in drinking water sources in the City of Oakdale and Lake Elmo, Minnesota, as well as presence in the soil and groundwater at the Company's manufacturing facilities in Decatur, Alabama and Cottage Grove, Minnesota and at several former disposal sites in Minnesota. As a result of these regulatory developments and of that review, the Company increased its accrued liabilities by \$121 million in the first quarter of 2007 to address these planned remediation activities. The company expects that most of the spending will occur over the next three to seven years. This quarter's expense was recorded in selling, general and administrative expenses.

No adverse human health effects are caused by perfluorinated compounds at current levels of exposure. This conclusion is supported by a large body of research including laboratory studies and epidemiology studies of exposed employees. This research has been published in peer-reviewed scientific journals and shared with the EPA and global scientific-community.

3M Company and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEET
(Dollars in millions)
(Unaudited)

	Mar. 31, 2007	Dec. 31, 2006	Mar. 31, 2006
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,697	\$ 1,447	\$ 912
Marketable securities	589	471	384
Accounts receivable – net	3,444	3,102	3,105
Inventories	2,714	2,601	2,379
Other current assets	1,282	1,325	1,141
Total current assets	9,726	8,946	7,921
Marketable securities – non-current	526	166	9
Investments	282	314	284
Property, plant and equipment – net	5,991	5,907	5,574
Prepaid pension and postretirement benefits (d)	427	395	2,859
Goodwill, intangible assets and other assets (e)	5,787	5,566	4,696
Total assets	<u>\$ 22,739</u>	<u>\$ 21,294</u>	<u>\$ 21,343</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings and current portion of long-term debt	\$ 2,831	\$ 2,506	\$ 1,343
Accounts payable	1,441	1,402	1,342
Accrued payroll	543	520	492
Accrued income taxes	915	1,134	932
Other current liabilities	1,774	1,761	1,348
Total current liabilities	7,504	7,323	5,457
Long-term debt	1,771	1,047	1,291
Other liabilities (d)	3,410	2,965	3,606
Total liabilities	12,685	11,335	10,354
Total stockholders' equity – net (d)	10,054	9,959	10,989
Shares outstanding			
March 31, 2007: 720,204,691 shares			
December 31, 2006: 734,362,802 shares			
March 31, 2006: 753,931,681 shares			
Total liabilities and stockholders' equity	<u>\$ 22,739</u>	<u>\$ 21,294</u>	<u>\$ 21,343</u>

(d) As of December 31, 2006, the Company adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." This standard required employers to

recognize the underfunded or overfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position. As a result of the implementation of SFAS No. 158, the Company recognized an after-tax decrease in accumulated other comprehensive income (which is part of stockholders' equity) of approximately \$1.9 billion and reversed prepaid pension and postretirement benefit long-term assets of approximately \$2.5 billion. Other liabilities, including the impact of deferred taxes, decreased by approximately \$0.6 billion. This change impacted the Consolidated Balance Sheet only, with no impact to net income or cash flows.

- (e) The goodwill, intangible assets and other assets increase when compared to Mar. 31, 2006 primarily relates to acquisitions.
-

3M Company and Subsidiaries
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Dollars in millions)
(Unaudited)

	Three-months ended Mar. 31	
	2007	2006
SUMMARY OF CASH FLOW:		
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 580	\$ 618
Cash flows from investing activities:		
Purchases of property, plant and equipment	(304)	(190)
Acquisitions, net of cash acquired	(55)	(22)
Proceeds from sale of pharmaceuticals business (a)	817	—
Other investing activities	(445)	(376)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	13	(588)
Cash flows from financing activities:		
Change in debt	1,061	269
Purchases of treasury stock	(1,164)	(251)
Reissuances of treasury stock	98	100
Dividends paid to stockholders	(350)	(347)
Other financing activities	(9)	1
NET CASH USED IN FINANCING ACTIVITIES	(364)	(228)
Effect of exchange rate changes on cash	21	38
Net increase (decrease) in cash and cash equivalents	250	(160)
Cash and cash equivalents at beginning of period	1,447	1,072
Cash and cash equivalents at end of period	\$ 1,697	\$ 912

3M Company and Subsidiaries
**SUPPLEMENTAL CASH FLOW AND
OTHER SUPPLEMENTAL FINANCIAL INFORMATION**
(Dollars in millions)
(Unaudited)

NON-GAAP MEASURES

Free Cash Flow:		
Net cash provided by operating activities	\$ 580	\$ 618
Purchases of property, plant and equipment	(304)	(190)
Free Cash Flow (f)	\$ 276	\$ 428

(f) Free cash flow is not defined under U.S. generally accepted accounting principles (GAAP). Therefore, it should not be considered a substitute for income or cash flow data prepared in accordance with U.S. GAAP and may not be comparable to similarly titled measures used by other companies. The company defines free cash flow as net cash provided by operating activities less purchases of property, plant and equipment. It should not be inferred that the entire free cash flow amount is available for discretionary expenditures. The company believes free cash flow is a useful measure of performance and uses this measure as an indication of the strength of the company and its ability to generate cash.

Net cash provided by operating activities and Free Cash Flow were negatively impacted by the timing of cash payments associated with certain current and prior period special items as follows:

1. First-quarter 2007 was negatively impacted by approximately \$394 million in tax payments related to the sale of our global branded pharmaceuticals business.
2. Fourth-quarter 2006 was negatively impacted by approximately \$95 in cash paid out for the Brontes Technologies Inc. acquisition.

	Mar. 31	
	2007	2006
OTHER NON-GAAP MEASURES:		
Net Working Capital Turns (g)	5.0	5.4

(g) The company uses various working capital measures that place emphasis and focus on certain working capital assets and liabilities. 3M's net working capital index is defined as quarterly net sales multiplied by four, divided by ending net accounts receivable plus inventory less accounts payable. This measure is not recognized under U.S. generally accepted accounting principles and may not be comparable to similarly titled measures used by other companies.

3M Company and Subsidiaries
SALES CHANGE ANALYSIS
(Unaudited)

Sales Change Analysis By Geographic Area	Three-Months Ended Mar. 31, 2007		
	United States	Inter-national	Worldwide
Volume — organic	2.3 %	7.6 %	5.6 %
Volume — acquisitions	3.1	2.4	2.6
Price	0.8	(1.8)	(0.8)
Local-currency sales (including acquisitions)	6.2	8.2	7.4
Divestitures	(4.2)	(3.5)	(3.8)
Translation	—	4.0	2.5
Total sales change	2.0 %	8.7 %	6.1 %

Sales Change Analysis By International Geographic Area	Local-currency Sales*	Divest- itures	Trans- lation	Total Sales Change
Europe, Middle East and Africa	13.3 %	(7.0%)	8.7%	15.0 %
Asia Pacific	3.9 %	(1.2%)	1.1 %	3.8 %
Latin America and Canada	9.1 %	(2.5%)	0.1 %	6.7 %

* Including acquisitions -- Europe, Middle East and Africa includes a 5.4% benefit.

Worldwide Sales Change Analysis By Business Segment	Local-currency Sales*	Divest- itures	Trans- lation	Total Sales Change
Industrial and Transportation	4.0 %	—%	2.7 %	6.7 %
Health Care	20.4 %	(24.9%)	4.0 %	(0.5%)
Display and Graphics	(0.8%)	—%	1.1 %	0.3 %
Consumer and Office	8.2 %	—%	1.7 %	9.9 %
Safety, Security and Protection Svcs	15.0 %	—%	3.7 %	18.7 %
Electro and Communications	1.2 %	—%	2.4 %	3.6 %

*Including acquisitions – Health Care includes a 5.6% benefit, related to numerous acquisitions, and a 4.3% benefit from new supply agreements with the new owners of the company's branded pharmaceutical business; Safety, Security and Protection Services includes a 10.1% benefit from acquisitions, primarily Security Printing and Systems Limited, which was acquired in August 2006.

3M Company and Subsidiaries
BUSINESS SEGMENTS
(Dollars in millions)
(Unaudited)

Effective in the first quarter of 2007, 3M made certain changes to its business segments in its continuing effort to drive growth by aligning businesses around markets and customers. Two of the more significant changes were:

- The merging of a number of formerly separate Track and Trace efforts into one concerted effort for future growth, resulting in the transfer of certain businesses from both the Industrial and Transportation segment and Electro and Communications segment to the Safety, Security and Protection Services segment.
- 3M's Visual Systems business (Consumer and Office segment) transferred to the Electro and Communications segment to leverage common markets, customers, suppliers and technologies.

Segment information for all periods presented has been reclassified to reflect this new segment structure.

BUSINESS SEGMENT INFORMATION (Millions)	Three-months ended Mar. 31	
	2007	2006
NET SALES		
Industrial and Transportation	\$ 1,785	\$ 1,672
Health Care	962	966
Display and Graphics	921	919
Consumer and Office	814	741
Safety, Security and Protection Services	758	639
Electro and Communications	668	645
Corporate and Unallocated	29	13
Total Company	<u>\$ 5,937</u>	<u>\$ 5,595</u>
OPERATING INCOME		
Industrial and Transportation	\$ 411	\$ 380
Health Care	1,062	298
Display and Graphics	295	292
Consumer and Office	177	150
Safety, Security and Protection Services	181	158
Electro and Communications	111	120
Corporate and Unallocated	(136)	(29)
Total Company	<u>\$ 2,101</u>	<u>\$ 1,369</u>

The following items impacted operating income results for the three months ended March 31, 2007. Refer to note (a) for discussion of the sale of 3M's global branded pharmaceuticals business, which

resulted in a pre-tax gain on sale of \$786 million (reflected in Health Care segment). Refer to note (b) for discussion of restructuring actions. The Health Care segment included a net pre-tax gain of \$7 million, which primarily related to adjustments to restructuring costs that were recorded in the fourth quarter of 2006. The Electro and Communications segment includes a pre-tax restructuring charge of \$19 million, primarily related to asset impairment charges. Refer to note (c) for discussion of the \$121 million increase in environmental liabilities (reflected in Corporate and Unallocated).

3M Company and Subsidiaries
**QUARTERLY DILUTED EARNINGS PER SHARE,
INCLUDING STOCK OPTION IMPACT (h)**
(Unaudited)

	Q1	Q2	Q3	Q4	Year
2006 Diluted EPS					
Reported	\$ 1.17	\$ 1.15	\$ 1.18	\$ 1.57	\$ 5.06
Excluding Special Items (i)	\$ 1.17	\$ 1.05	\$ 1.17	\$ 1.10	\$ 4.49
SFAS 123R impact included in EPS	\$ (0.02)	\$ (0.07)	\$ (0.04)	\$ (0.04)	\$ (0.17)
	Actual Q1	Estimated Q2	Estimated Q3	Estimated Q4	Guidance Year
2007 Diluted EPS					
Reported	\$ 1.85				\$ 5.20-\$5.45
Excluding Special Items (i)	\$ 1.28				\$ 4.60-\$4.75
SFAS 123R impact included in EPS	\$ (0.03)	\$ (0.09)	\$ (0.04)	\$ (0.04)	\$ (0.20)

- (h) 3M adopted Statement of Financial Accounting Standards No. 123R effective Jan. 1, 2006, using the modified retrospective method, with prior periods adjusted to give effect to the fair-value-based method of accounting for stock option awards granted in fiscal years beginning on or after Jan. 1, 1995.
- (i) In addition to disclosing results that are determined in accordance with U.S. generally accepted accounting principles (GAAP), the company also discloses non-GAAP results that exclude special items. Special items represent significant charges or credits that are important to an understanding of the company's ongoing operations. The company provides reconciliations of its non-GAAP financial reporting to the most comparable GAAP reporting. The company believes that discussion of results excluding special items provides a useful analysis of ongoing operating trends. Earnings per share and other amounts before special items are not measures recognized under GAAP. The determination of special items may not be comparable to similarly titled measures used by other companies. Refer to the preceding "Supplemental Consolidated Statement of Income Information" for discussion of special items that impacted the first quarter of 2007. Refer to 3M's Annual Report on Form 10-K for discussion of special items that impacted 2006.

3M Company and Subsidiaries
NEW ACCOUNTING PRONOUNCEMENTS DISCUSSION
(Unaudited)

In June 2006, the Financial Accounting Standards Board (FASB) issued Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provided guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. This interpretation was effective as of Jan. 1, 2007 and the cumulative effects, which were not material, of applying this interpretation were recorded as an adjustment to retained earnings as of Jan. 1, 2007. The adoption of FIN 48 did not have a material impact on 3M's consolidated results of operations or financial condition.

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EXHIBIT C-2

8-K 1 a07-2955 18k.htm 8-K

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, DC 20549

FORM 8-K

**CURRENT REPORT PURSUANT
TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Date of report (Date of earliest event reported): **January 30, 2007**

3M COMPANY

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation)

File No. 1-3285
(Commission File Number)

41-0417775
(IRS Employer Identification No.)

3M Center, St. Paul, Minnesota
(Address of Principal Executive Offices)

55144-1000
(Zip Code)

(651) 733-1110
(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-
-

Item 2.02. Results of Operations and Financial Condition

On January 30, 2007, 3M Company issued a press release reporting its sales and profit results for the fourth quarter and calendar year 2006 (attached hereunder as Exhibit 99 and incorporated herein by reference).

Item 9.01. Financial Statements and Exhibits

(c) Exhibits

<u>Exhibit Number</u>	<u>Description</u>
99	Press Release, dated as of January 30, 2007, of 3M Company (furnished pursuant to Item 2.02 hereof)

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

3M COMPANY

By: /s/ Gregg M. Larson
Gregg M. Larson,
Associate General Counsel and Secretary

Dated: January 30, 2007

EXHIBIT INDEX

Exhibit Number

Description

99

Press Release, dated as of January 30, 2007, of 3M
Company (furnished pursuant to Item 2.02 hereof).

EX-99 2 a07-2955_1ex99.htm EX-99

Exhibit 99

FOR IMMEDIATE RELEASE

3M Reports Record Fourth-Quarter and Calendar Year Sales and Earnings

ST. PAUL, Minn. – Jan. 30, 2007 – 3M (NYSE: MMM) today announced its sales and profit results for the fourth-quarter and calendar year 2006.

For the 2006 calendar year, net income was \$3.9 billion, or \$5.06 per share, versus \$3.1 billion, or \$3.98 per share, an increase of 24 percent and 27 percent, respectively. Full-year 2006 net income includes a net profit of \$438 million, or \$0.57 per share, largely due to a gain on the sale of those geographic regions of the company's global branded pharmaceuticals business that closed in December, net of various other special items(a-h). Full-year 2005 net income includes net costs due to special items(i-j) of \$110 million, or \$0.14 per share. Included in these full-year results are stock option expenses of \$0.17 per share in 2006 and \$0.14 per share in 2005(p).

Calendar year 2006 sales totaled \$22.9 billion, an 8.3 percent increase over 2005. Local-currency sales increased 7.7 percent, including 2.1 percent from acquisitions. Selling prices declined 0.5 percent on average, and currency impacts added 0.6 percent to 2006 full-year sales growth. Calendar-year local-currency sales growth was driven by increases of 13.2 percent in Safety, Security and Protection Services, 9.1 percent in Industrial and Transportation, 6.9 percent in Display and Graphics, 6.1 percent in Consumer and Office, 6 percent in Health Care and 5.6 in Electro and Communications. All six businesses posted positive local-currency sales growth for the third consecutive year.

"This was a good year for 3M, as we generated record sales and profits," said George W. Buckley, 3M chairman, president and CEO. "We accelerated investments in many areas, including research and development, sales and marketing, growth-oriented capital investments and selected acquisitions, while maintaining our outstanding profitability levels. These investments have strengthened our positions in growing markets, and as they begin to bear fruit, I am confident that we will transform 3M into a faster-growing, higher-performing enterprise. I would like to personally thank 3M employees worldwide for their many contributions in 2006."

Fourth-quarter net income was \$1.2 billion, or \$1.57 per share, versus \$746 million, or \$0.97 per share, in the fourth quarter of 2005. Net income and earnings per share increased 58 percent and 62 percent, respectively. Fourth-quarter 2006 net income includes a net profit of \$354 million, or \$0.47 per share, again largely due to a gain on the sale of those geographic regions of the company's global branded pharmaceuticals business that closed in December, net of various other special items(a-h). Fourth-quarter 2005 net income includes an expense of \$35 million, or \$0.04 per share, due to the effect of FIN 47(j). Included in these results are stock option expenses of \$0.04 per share in the fourth quarter of 2006 and \$0.02 per share in the fourth quarter of 2005(p).

Fourth-quarter worldwide sales were \$5.8 billion, up 8.6 percent compared to the fourth quarter of 2005. Total local-currency sales increased 5.8 percent, led by a 12.2 percent increase in Safety, Security and Protection Services and an 8.9 percent improvement in Health Care. Local-currency sales increased 5.6 percent in Consumer and Office, 4.8 percent in Industrial and Transportation, 3.6 percent in Display and Graphics and 2.6 percent in Electro and Communications. Total-company local-currency sales growth includes 1.9 points from acquired businesses. Currency impacts added

2.8 percent to fourth-quarter growth, and selling prices declined 1 percent versus last year's comparable quarter.

Fourth-quarter local-currency growth was 10.5 percent in Europe, 10.2 percent in Latin America and 5 percent in Asia Pacific. In the United States, sales grew 3.3 percent despite a significant slowdown in the housing industry, which hurt growth by an estimated 3 percentage points.

"Looking ahead, despite what appears to be slightly moderating economic growth worldwide, I am very optimistic about the future of our company," said Buckley. "We will continue to drive our growth agenda, which will be funded via aggressive productivity improvement efforts, such as global strategic sourcing and lean six sigma."

3M also provided its outlook for 2007 sales and earnings. The company expects 2007 per share earnings to be in the range of \$5.20 to \$5.45, which includes a net gain, after costs for known restructuring actions, of approximately \$0.60 to \$0.70 per diluted share due to the sale in the first quarter of the company's branded pharmaceuticals business in Europe. Also included in this range is an estimated \$0.21 per share due to expensing of stock options. 3M also expects full-year local-currency sales growth, adjusted for the divestiture of its global branded pharmaceuticals business, to be between 6 and 10 percent, which includes approximately 1.5 percentage points due to acquisitions closed as of this date. Including the global branded pharmaceuticals sales in 2006, total local-currency sales growth for 2007 is expected to be between 2 and 6 percent.

George W. Buckley, and Patrick D. Campbell, senior vice president and chief financial officer, will conduct an investor teleconference at 9 a.m. Eastern Time (8 a.m. Central Time) today. Investors can access a webcast of this conference, along with related charts and materials, at <http://investor.3M.com>.

Forward-Looking Statements

This news release contains forward-looking information (within the meaning of the Private Securities Litigation Reform Act of 1995) about the company's financial results and estimates, business prospects, and products under development that involve substantial risks and uncertainties. You can identify these statements by the use of words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "will," and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. Among the factors that could cause actual results to differ materially are the following: (1) worldwide economic conditions; (2) competitive conditions and customer preferences; (3) foreign currency exchange rates and fluctuations in those rates; (4) the timing and acceptance of new product offerings; (5) the availability and cost of purchased components, compounds, raw materials and energy (including oil and natural gas and their derivatives) due to shortages, increased demand or supply interruptions (including those caused by natural and other disasters and other events); (6) the impact of acquisitions, strategic alliances, divestitures, and other unusual events resulting from portfolio management actions and other evolving business strategies, and possible organizational restructuring; (7) generating less productivity improvements than estimated; and (8) legal proceedings, including significant developments that could occur in the legal and regulatory proceedings described in the company's Annual Report on Form 10-K for the year ended December 31, 2005 and the Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006, June 30, 2006 and September 30, 2006 (the "Reports"). Changes in such assumptions or factors could produce significantly different results. A further description of these factors is located in the Reports under Part I, Item 1A (Annual Report) and Part II, Item 1A (Quarterly Report), "Risk Factors." The information contained in this news release is as of the date indicated. The company assumes no

obligation to update any forward-looking statements contained in this news release as a result of new information or future events or developments.

About 3M – A Global, Diversified Technology Company

Every day, 3M people find new ways to make amazing things happen. Wherever they are, whatever they do, the company's customers know they can rely on 3M to help make their lives better. 3M's brands include Scotch, Post-it, Scotchgard, Thinsulate, Scotch-Brite, Filtrete, Command and Vikuiti. Serving customers around the world, the people of 3M use their expertise, technologies and global strength to lead in major markets including consumer and office; display and graphics; electronics and telecommunications; safety, security and protection services; health care; industrial and transportation.

Scotch, Post-it, Scotchgard, Thinsulate, Scotch-Brite, Filtrete, Command and Vikuiti are trademarks of 3M.

3M Company and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME
(Millions, except per-share amounts)
(Unaudited)

	Three-months ended Dec. 31		Twelve-months ended Dec. 31	
	2006	2005	2006	2005
Net sales	\$ 5,782	\$ 5,325	\$ 22,923	\$ 21,167
Operating expenses				
Cost of sales	3,162	2,622	11,713	10,408
Selling, general and administrative expenses	1,375	1,191	5,066	4,631
Research, development and related expenses	509	322	1,522	1,274
Gain on sale of pharmaceuticals business (a)	(1,074)	—	(1,074)	—
Total	3,972	4,135	17,227	16,313
Operating income	1,810	1,190	5,696	4,854
Interest expense and income				
Interest expense	38	23	122	82
Interest income	(16)	(11)	(51)	(56)
Total	22	12	71	26
Income before income taxes, minority interest and cumulative effect of accounting change	1,788	1,178	5,625	4,828
Provision for income taxes	596	382	1,723	1,627
Minority interest	16	15	51	55
Income before cumulative effect of accounting change	1,176	781	3,851	3,146
Cumulative effect of accounting change (j)	—	(35)	—	(35)
Net income	\$ 1,176	\$ 746	\$ 3,851	\$ 3,111
Weighted average common shares outstanding — basic	735.4	757.6	747.5	764.9
Earnings per share — basic (p)				
Income before cumulative effect of accounting change	\$ 1.60	\$ 1.03	\$ 5.15	\$ 4.11
Cumulative effect of accounting change (j)	—	(0.05)	—	(0.04)
Net Income	\$ 1.60	\$ 0.98	\$ 5.15	\$ 4.07
Weighted average common shares outstanding — diluted	748.6	771.5	761.0	781.3
Earnings per share — diluted (p)				
Income before cumulative effect of accounting change	\$ 1.57	\$ 1.01	\$ 5.06	\$ 4.03
Cumulative effect of accounting change (j)	—	(0.04)	—	(0.05)
Net income	\$ 1.57	\$ 0.97	\$ 5.06	\$ 3.98
Cash dividends paid per common share	\$ 0.46	\$ 0.42	\$ 1.84	\$ 1.68

3M Company and Subsidiaries
SUPPLEMENTAL CONSOLIDATED STATEMENT OF INCOME INFORMATION
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES
(Millions, except per-share amounts)
(Unaudited)

In addition to reporting financial results in accordance with U.S. generally accepted accounting principles (GAAP), the company also discusses non-GAAP measures that exclude special items. Operating income, net income, and diluted earnings per share measures that exclude special items are not in accordance with, nor are they a substitute for, GAAP measures. Special items represent significant charges or credits that are important to an understanding of the company's ongoing operations. The company uses these non-GAAP measures to evaluate and manage the company's operations. The company believes that discussion of results excluding special items provides a useful analysis of ongoing operating trends. The determination of special items may not be comparable to similarly titled measures used by other companies.

The reconciliation provided below reconciles the non-GAAP financial measures with the most directly comparable GAAP financial measures for the three months and twelve months ended December 31, 2006.

	Three-months ended Dec. 31, 2006			Twelve-months ended Dec. 31, 2006		
	Operating income	Net income	Diluted earnings per share	Operating income	Net income	Diluted earnings per share
Reported GAAP measure	\$ 1,810	\$ 1,176	\$ 1.57	\$ 5,696	\$ 3,851	\$ 5.06
Special items:						
Gain on sale of pharmaceuticals business (a)	(1,074)	(674)	(0.90)	(1,074)	(674)	(0.88)
Restructuring and other actions:						
Pharmaceuticals business restructuring actions(b):						
Employee related	77	49	0.06	97	62	0.08
Asset impairment and other	67	42	0.06	69	44	0.06
Environmental (c)	13	8	0.01	13	8	0.01
Overhead reduction actions (d)	112	73	0.10	112	73	0.10
Businesses-specific restructuring actions (e):						
Employee related	34	21	0.03	34	21	0.03
Asset impairment and other	91	57	0.07	91	57	0.07
Acquired in-process research and development (f)	95	95	0.13	95	95	0.13
Class action settlement (g)	—	—	—	40	25	0.03
Benefit from income tax adjustments (h)	—	(25)	(0.03)	—	(149)	(0.20)
Adjusted Non-GAAP measure	\$ 1,225	\$ 822	\$ 1.10	\$ 5,173	\$ 3,413	\$ 4.49

- (a) In December 2006, 3M completed the sale of its global branded pharmaceuticals business in the United States, Canada, and Latin America region and the Asia Pacific region, including Australia and South Africa. 3M received proceeds of \$1.209 billion for these transactions and recognized a gain of \$1.074 billion. In January 2007, 3M completed the sale of its global branded pharmaceuticals business in Europe, which will be reflected in 3M's financial statements for the period ending March 31, 2007. In connection with these transactions, 3M's Drug Delivery Systems Division (DDSD) entered into agreements whereby it became a source of supply to the acquiring companies. The Company expects annual revenues of approximately \$100 million from these supply arrangements, with profitability substantially lower than most of our existing Health Care businesses. Because of the extent of the continuing cash flows from these supply agreements in relation to those of the disposed business, the operations of the branded pharmaceuticals business are not classified as discontinued operations.
 - (b) Pharmaceuticals business restructuring actions, primarily in the fourth quarter, included employee related, asset impairment and other costs pertaining to the Company's exit of its branded pharmaceuticals operations. These costs included severance and benefits for pharmaceuticals business employees who did not retain employment with the buyer, which will reduce cash flows in 2007 when the related severance is paid.
 - (c) In the fourth quarter of 2006, an environmental obligation was recognized in the pharmaceuticals business.
 - (d) In response to the sale of our branded pharmaceuticals business, the Company took actions to reduce worldwide staff overhead in the fourth quarter of 2006. These actions were taken to streamline the company's cost structure and to avoid burdening the company's remaining businesses with the corporate overhead costs that had previously been allocated to the pharmaceuticals division. These costs were recorded in the Health Care segment and will reduce cash flows in 2007 when the related severance is paid.
 - (e) Businesses-specific restructuring actions taken in the fourth quarter of 2006 included employee related costs for severance and benefits, fixed and intangible asset impairments, losses from certain no longer profitable contractual obligations, and expenses from the exit of certain product lines and the streamlining of supply chains in certain businesses.
 - (f) In October 2006, 3M acquired Brontes Technologies Inc., a Lexington, Massachusetts based developer of proprietary 3-D imaging technology for dental and orthodontic applications. This transaction resulted in a fourth quarter 2006 charge, reflecting the one time write-off of acquired in-process research and development costs, which is reflected in the "Research, development and related expense" line of the Consolidated Statement of Income.
 - (g) In the second quarter of 2006, 3M recognized an expense after entering into an agreement in principle (which was subsequently executed in the third quarter of 2006) to resolve the antitrust class action involving direct purchasers of branded transparent tape (but not private label tape).
 - (h) In the second, third and fourth quarters of 2006, the Company recorded net benefits from income tax adjustments, with \$124 million of the \$149 million total year adjustment previously described in 3M's Quarterly Report on Form 10-Q for the period ended June 30, 2006 and September 30, 2006.
-

In total, in the fourth quarter of 2006, these special items negatively impacted:

- Cost of sales by \$143 million
- Selling, general and administrative expenses by \$176 million
- Research, development and related expenses by \$170 million

In addition:

- The gain on sale in the fourth quarter of 2006 of \$1.074 billion is recorded on a separate line of the Consolidated Statement of Income
- Special items in the second and third quarter of 2006 negatively impacted selling, general and administrative expenses by \$62 million.

The reconciliation provided below reconciles the non-GAAP operating income measure by business segment with the most directly comparable GAAP financial measure for the three months and twelve months ended December 31, 2006.

OPERATING INCOME BY BUSINESS SEGMENT	Three-months ended Dec. 31, 2006			Twelve-months ended Dec. 31, 2006		
	Reported GAAP measure	Special items	Adjusted Non-GAAP measure	Reported GAAP measure	Special items	Adjusted Non-GAAP measure
Industrial and Transportation	\$ 301	\$ 15	\$ 316	\$ 1,343	\$ 15	\$ 1,358
Health Care	999	(695)	304	1,845	(673)	1,172
Display and Graphics	225	39	264	1,062	39	1,101
Consumer and Office	141	—	141	579	—	579
Electro and Communications	64	46	110	438	46	484
Safety, Security and Protection Services	118	10	128	575	10	585
Corporate and Unallocated	(38)	—	(38)	(146)	40	(106)
Total Operating Income	<u>\$ 1,810</u>	<u>\$ (585)</u>	<u>\$ 1,225</u>	<u>\$ 5,696</u>	<u>\$ (523)</u>	<u>\$ 5,173</u>

The reconciliation provided below reconciles the non-GAAP financial measures with the most directly comparable GAAP financial measures for the three months and twelve months ended December 31, 2005.

	Three-months ended Dec. 31, 2005			Twelve-months ended Dec. 31, 2005		
	Operating income	Net income	Diluted Earnings per share	Operating income	Net income	Diluted Earnings per share
Reported GAAP measure	\$ 1,190	\$ 746	\$ 0.97	\$ 4,854	\$ 3,111	\$ 3.98
Special items:						
Jobs Act (i)	—	—	—	—	75	0.09
Cumulative effect of accounting change (j)	—	35	0.04	—	35	0.05
Adjusted Non-GAAP measure	<u>\$ 1,190</u>	<u>\$ 781</u>	<u>\$ 1.01</u>	<u>\$ 4,854</u>	<u>\$ 3,221</u>	<u>\$ 4.12</u>

- (i) In the second quarter of 2005, the Company announced its intent to reinvest \$1.7 billion of foreign earnings in the United States pursuant to the American Jobs Creation Act (Jobs Act) of 2004. As a consequence, in the second quarter of 2005, 3M recorded a charge of \$75 million after-tax.
- (j) In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations — an interpretation of FASB Statement No. 143" ("FIN 47"). In adopting FIN 47 in the fourth quarter of 2005, 3M recorded a noncash charge of \$35 million after-tax, as a cumulative effect of change in accounting principle. This charge represents conditional retirement obligations associated with 3M's long-lived assets.

3M Company and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEET
(Dollars in millions)
(Unaudited)

	Dec. 31, 2006	Dec. 31, 2005
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,447	\$ 1,072
Marketable securities — current	471	—
Accounts receivable — net	3,102	2,838
Inventories	2,601	2,162
Other current assets	1,325	1,043
Total current assets	8,946	7,115
Marketable securities — non-current	166	—
Investments	314	272
Property, plant and equipment — net	5,907	5,593
Prepaid pension and postretirement benefits (k)	394	2,905
Goodwill, intangible assets and other assets (k, l)	5,580	4,656
Total assets	<u>\$ 21,307</u>	<u>\$ 20,541</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings and current portion of long-term debt	\$ 2,506	\$ 1,072
Accounts payable	1,402	1,256
Accrued payroll	520	469
Accrued income taxes	1,134	989
Other current liabilities	1,761	1,452
Total current liabilities	7,323	5,238
Long-term debt	1,047	1,309
Other liabilities (k)	2,965	3,599
Total liabilities	<u>11,335</u>	<u>10,146</u>
Total stockholders' equity — net (k)	9,972	10,395
Shares outstanding		
December 31, 2006: 734,362,802 shares		
December 31, 2005: 754,538,387 shares		
Total liabilities and stockholders' equity	<u>\$ 21,307</u>	<u>\$ 20,541</u>

(k) Reference SFAS No. 158 accounting pronouncements discussion and supplemental Consolidated Balance Sheet information that follows

(l) Approximately \$800 million of this increase when compared to year-end 2005 relates to 2006 acquisitions

3M Company and Subsidiaries
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Dollars in millions)
(Unaudited)

	Twelve-months ended Dec. 31	
	2006	2005
SUMMARY OF CASH FLOW:		
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 3,839	\$ 4,204
Cash flows from investing activities:		
Purchases of property, plant and equipment	(1,168)	(943)
Acquisitions, net of cash acquired	(888)	(1,293)
Proceeds from sale of pharmaceuticals business (a)	1,209	—
Other investing activities	(613)	(5)
NET CASH USED IN INVESTING ACTIVITIES	(1,460)	(2,241)
Cash flows from financing activities:		
Change in debt	1,135	(485)
Purchases of treasury stock	(2,351)	(2,377)
Reissuances of treasury stock	523	545
Dividends paid to stockholders	(1,376)	(1,286)
Other financing activities	8	(22)
NET CASH USED IN FINANCING ACTIVITIES	(2,061)	(3,625)
Effect of exchange rate changes on cash	57	(23)
Net increase (decrease) in cash and cash equivalents	375	(1,685)
Cash and cash equivalents at beginning of period	1,072	2,757
Cash and cash equivalents at end of period	\$ 1,447	\$ 1,072

3M Company and Subsidiaries
**SUPPLEMENTAL CASH FLOW AND
OTHER SUPPLEMENTAL FINANCIAL INFORMATION**
(Dollars in millions)
(Unaudited)

	Twelve-months ended Dec. 31	
	2006	2005
NON-GAAP MEASURES		
Free Cash Flow:		
Net cash provided by operating activities	\$ 3,839	\$ 4,204
Purchases of property, plant and equipment	(1,168)	(943)
Free Cash Flow (m)	<u>\$ 2,671</u>	<u>\$ 3,261</u>
OTHER NON-GAAP MEASURES:		
Net Working Capital Turns (n)	5.4	5.7
Reported (before cumulative effect of accounting change in 2005):		
Economic Profit (o)	\$ 2,386	\$ 1,763
Return on Invested Capital (o)	25.3 %	22.1 %
Excluding Special Items:		
Economic Profit (o)	\$ 1,948	\$ 1,838
Return on Invested Capital (o)	22.5 %	22.6 %

- (m) Free cash flow is not defined under U.S. generally accepted accounting principles (GAAP). Therefore, it should not be considered a substitute for income or cash flow data prepared in accordance with U.S. GAAP and may not be comparable to similarly titled measures used by other companies. The company defines free cash flow as net cash provided by operating activities less purchases of property, plant and equipment. It should not be inferred that the entire free cash flow amount is available for discretionary expenditures. The company believes free cash flow is a useful measure of performance and uses this measure as an indication of the strength of the company and its ability to generate cash.
- (n) The company uses various working capital measures that place emphasis and focus on certain working capital assets and liabilities. 3M's net working capital index is defined as quarterly net sales multiplied by four, divided by ending net accounts receivable plus inventory less accounts payable. This measure is not recognized under U.S. generally accepted accounting principles and may not be comparable to similarly titled measures used by other companies.
- (o) The company uses non-GAAP measures to focus on shareholder value creation. 3M's Economic Profit is defined as after-tax operating income less a charge for operating capital. 3M also uses Return on Invested Capital, defined as after-tax operating income divided by average operating capital. This measure is presented as reported and also excluding special items. Special items were previously defined within the Supplemental Consolidated Statement of Income Information section of this document. These measures are not recognized under U.S. generally accepted accounting principles and may not be comparable to similarly titled measures used by other companies.

3M Company and Subsidiaries
SALES CHANGE ANALYSIS
(Unaudited)

Sales Change Analysis By Geographic Area	Three-Months Ended Dec. 31, 2006		
	United States	Inter-national	Worldwide
Volume — organic	0.8 %	7.3 %	4.9 %
Volume — acquisitions, net of divestitures	1.8	2.1	1.9
Volume — total	2.6	9.4	6.8
Price	0.7	(2.0)	(1.0)
Total local-currency sales	3.3	7.4	5.8
Translation	—	4.6	2.8
Total sales change	3.3 %	12.0 %	8.6 %

Sales Change Analysis By International Geographic Area	Local-currency Sales	Trans-lation	Total Sales Change
Europe, Middle East and Africa	10.5 %	8.7 %	19.2 %
Asia Pacific	5.0 %	1.9 %	6.9 %
Latin America and Canada	9.7 %	1.8 %	11.5 %

Worldwide Sales Change Analysis By Business Segment	Local-currency Sales	Trans-lation	Total Sales Change
Industrial and Transportation	4.8 %	3.2 %	8.0 %
Health Care	8.9 %	3.7 %	12.6 %
Display and Graphics	3.6 %	1.4 %	5.0 %
Consumer and Office	5.6 %	2.1 %	7.7 %
Electro and Communications	2.6 %	3.2 %	5.8 %
Safety, Security and Protection Services	12.2 %	4.1 %	16.3 %

Note: Safety, Security and Protection Services includes a 10.2% benefit from acquisitions, primarily Security Printing and Systems Limited, which was acquired in August 2006.

3M Company and Subsidiaries
SALES CHANGE ANALYSIS
(Unaudited)

Sales Change Analysis By Geographic Area	Twelve-Months Ended Dec. 31, 2006		
	United States	Inter-national	Worldwide
Volume – organic	3.1 %	8.0 %	6.1 %
Volume – acquisitions, net of divestitures	2.6	1.9	2.1
Volume – total	5.7	9.9	8.2
Price	1.4	(1.8)	(0.5)
Total local-currency sales	7.1	8.1	7.7
Translation	—	1.0	0.6
Total sales change	7.1 %	9.1 %	8.3 %
Sales Change Analysis By International Geographic Area	Local-currency Sales	Trans-lation	Total Sales Change
Europe, Middle East and Africa	8.3 %	1.4 %	9.7 %
Asia Pacific	9.2 %	(0.4 %)	8.8 %
Latin America and Canada	6.1 %	4.4 %	10.5 %
Worldwide Sales Change Analysis By Business Segment	Local-currency Sales	Trans-lation	Total Sales Change
Industrial and Transportation	9.1 %	0.8 %	9.9 %
Health Care	6.0 %	0.7 %	6.7 %
Display and Graphics	6.9 %	0.3 %	7.2 %
Consumer and Office	6.1 %	0.7 %	6.8 %
Electro and Communications	5.6 %	0.8 %	6.4 %
Safety, Security and Protection Services	13.2 %	1.2 %	14.4 %

Note: Industrial and Transportation includes a 4.6% benefit from acquisitions, primarily CUNO, which was acquired in August 2005. Safety, Security and Protection Services includes a 4.0% benefit from acquisitions, primarily Security Printing and Systems Limited.

3M Company and Subsidiaries
BUSINESS SEGMENTS
(Dollars in millions)
(Unaudited)

BUSINESS SEGMENT INFORMATION (Millions)	Three-months ended		Twelve-months ended	
	Dec. 31		Dec. 31	
	2006	2005	2006	2005
NET SALES				
Industrial and Transportation	\$ 1,683	\$ 1,558	\$ 6,754	\$ 6,144
Health Care	1,047	929	4,011	3,760
Display and Graphics	946	901	3,765	3,511
Consumer and Office	824	765	3,238	3,033
Electro and Communications	619	585	2,483	2,333
Safety, Security and Protection Services	655	563	2,621	2,292
Corporate and Unallocated	8	24	51	94
Total Company	\$ 5,782	\$ 5,325	\$ 22,923	\$ 21,167
OPERATING INCOME				
Industrial and Transportation	\$ 301	\$ 298	\$ 1,343	\$ 1,211
Health Care	999	285	1,845	1,114
Display and Graphics	225	286	1,062	1,162
Consumer and Office	141	142	579	561
Electro and Communications	64	113	438	447
Safety, Security and Protection Services	118	127	575	537
Corporate and Unallocated	(38)	(61)	(146)	(178)
Total Company	\$ 1,810	\$ 1,190	\$ 5,696	\$ 4,854

Refer to Note (a) for discussion of the sales of 3M's global branded pharmaceuticals business, which resulted in a gain on sale of \$1.074 billion (reflected in Health Care segment). In addition, the Health Care segment included \$284 million in restructuring costs, primarily employee related severance and benefit costs. Of the \$284 million, \$157 million was related to the pharmaceuticals business (refer to notes (b) and (c)), \$112 million of severance and benefit costs related to restructurings in certain corporate functions (refer to note (d)), and \$15 million related to Health Care severance and other costs (refer to note (e)). Health Care also included \$95 million of expensed in-process research and development costs related to the Brontes acquisition (refer to note (f)). In total, the combination of the above items positively impacted the fourth quarter 2006 Health Care operating income by \$695 million. The Company also incurred costs related to the sale of the branded pharmaceuticals business in the second and third quarters of 2006 totaling \$22 million, which combined with the preceding items, positively impacted total year 2006 Health Care operating income by \$673 million.

In connection with the sale of the branded pharmaceuticals business, the Company also decided to restructure certain products and businesses to streamline its cost structure following the sale of the branded pharmaceuticals business (refer to note (e)). Fourth-quarter 2006 included costs related to these restructuring actions, primarily severance, fixed asset impairments and intangible impairments. Refer to the preceding Supplemental Consolidated Statement of Income Information section for a table showing the impacts of these actions by business segment. Corporate and Unallocated in the second quarter of 2006 included a \$40 million charge for a class action settlement (refer to note g).

3M Company and Subsidiaries
SFAS 123R STOCK OPTION EXPENSE IMPACT (p)
(Dollars in millions, except per share amounts)
(Unaudited)

	Three months ended Dec. 31			Difference
	2006	2005		
Cost of sales	\$ 9	\$ 4	\$ 5	
% to Sales	0.2 %	0.1 %	0.1 %	
Selling, general and administrative expenses	\$ 21	\$ 13	\$ 8	
% to Sales	0.4 %	0.2 %	0.2 %	
Research, development and related expenses	\$ 8	\$ 5	\$ 3	
% to Sales	0.1 %	0.1 %	0.0 %	
Operating Income	\$ 38	\$ 22	\$ 16	
% to Sales	0.7 %	0.4 %	0.3 %	

SFAS 123R STOCK OPTION EXPENSE IMPACT (p)
(Dollars in millions, except per share amounts)
(Unaudited)

	Twelve months ended Dec. 31			Difference
	2006	2005		
Cost of sales	\$ 42	\$ 27	\$ 15	
% to Sales	0.2 %	0.1 %	0.1 %	
Selling, general and administrative expenses	\$ 119	\$ 96	\$ 23	
% to Sales	0.5 %	0.4 %	0.1 %	
Research, development and related expenses	\$ 39	\$ 32	\$ 7	
% to Sales	0.2 %	0.2 %	—	
Operating Income	\$ 200	\$ 155	\$ 45	
% to Sales	0.9 %	0.7 %	0.2 %	

3M Company and Subsidiaries
BUSINESS SEGMENT STOCK OPTION EXPENSE (p)
(Dollars in millions)
(Unaudited)

	Three-months ended Dec. 31			
	2006	% to Sales	2005	% to Sales
Industrial and Transportation	\$ 11	0.6%	\$ 7	0.4%
Health Care	8	0.8%	5	0.5%
Display and Graphics	5	0.6%	2	0.3%
Consumer and Office	5	0.6%	3	0.4%
Electro and Communications	4	0.6%	3	0.4%
Safety, Security and Protection Services	5	0.7%	2	0.4%
Corporate	—	—	—	—
Total Company	<u>\$ 38</u>	<u>0.7%</u>	<u>\$ 22</u>	<u>0.4%</u>

BUSINESS SEGMENT STOCK OPTION EXPENSE (p)
(Dollars in millions)
(Unaudited)

	Twelve months ended Dec. 31			
	2006	% to Sales	2005	% to Sales
Industrial and Transportation	\$ 51	0.8%	\$ 47	0.8%
Health Care	42	1.1%	35	0.9%
Display and Graphics	27	0.7%	19	0.5%
Consumer and Office	24	0.7%	21	0.7%
Electro and Communications	20	0.8%	17	0.7%
Safety, Security and Protection Services	21	0.8%	16	0.7%
Corporate	15	—	—	—
Total Company	<u>\$ 200</u>	<u>0.9%</u>	<u>\$ 155</u>	<u>0.7%</u>

3M Company and Subsidiaries
QUARTERLY DILUTED EARNINGS PER SHARE,
INCLUDING STOCK OPTION IMPACT (p)
(Unaudited)

2004 – Reported	Q1	Q2	Q3	Q4	Total
EPS as originally reported	\$ 0.90	\$ 0.97	\$ 0.97	\$ 0.91	\$ 3.75
SFAS 123R impact	\$ (0.03)	\$ (0.04)	\$ (0.06)	\$ (0.06)	\$ (0.19)
EPS with SFAS123R impact	\$ 0.87	\$ 0.93	\$ 0.91	\$ 0.85	\$ 3.56
2005 – Reported	Q1	Q2	Q3	Q4	Total
EPS as originally reported	\$ 1.03	\$ 1.00	\$ 1.10	\$ 0.99	\$ 4.12
SFAS 123R impact	\$ (0.06)	\$ (0.04)	\$ (0.02)	\$ (0.02)	\$ (0.14)
EPS with SFAS123R impact	\$ 0.97	\$ 0.96	\$ 1.08	\$ 0.97	\$ 3.98
2005 – Excluding Special Items (q)	Q1	Q2	Q3	Q4	Total
EPS as originally reported	\$ 1.03	\$ 1.09	\$ 1.10	\$ 1.04	\$ 4.26
SFAS 123R impact	\$ (0.06)	\$ (0.04)	\$ (0.02)	\$ (0.02)	\$ (0.14)
EPS with SFAS123R impact	\$ 0.97	\$ 1.06	\$ 1.08	\$ 1.01	\$ 4.12
2006 – Reported	Q1	Q2	Q3	Q4	Total
Diluted EPS	\$ 1.17	\$ 1.15	\$ 1.18	\$ 1.57	\$ 5.06
SFAS 123R impact included in EPS	\$ (0.02)	\$ (0.07)	\$ (0.04)	\$ (0.04)	\$ (0.17)
2006 – Excluding Special Items (q)	Q1	Q2	Q3	Q4	Total
Diluted EPS	\$ 1.17	\$ 1.05	\$ 1.17	\$ 1.10	\$ 4.49
SFAS 123R impact included in EPS	\$ (0.02)	\$ (0.07)	\$ (0.04)	\$ (0.04)	\$ (0.17)
2007 – Reported – Estimated (r)	Q1	Q2	Q3	Q4	Total
Diluted EPS Guidance					\$ 5.20-\$5.45
Estimated SFAS 123R impact included in EPS guidance	\$ (0.04)	\$ (0.09)	\$ (0.04)	\$ (0.04)	\$ (0.21)
2007 – Excluding Special Items – Estimated (q)	Q1	Q2	Q3	Q4	Total
Diluted EPS Guidance					\$ 4.60-\$4.75
Estimated SFAS 123R impact included in EPS guidance	\$ (0.04)	\$ (0.09)	\$ (0.04)	\$ (0.04)	\$ (0.21)

(p) 3M adopted Statement of Financial Accounting Standards No. 123R effective Jan. 1, 2006, using the modified retrospective method, with prior periods adjusted to give effect to the fair-value-based method of accounting for stock option awards granted in fiscal years beginning on or after Jan. 1, 1995. The fourth quarter and year 2006 stock-based

compensation expense is higher for the same reasons cited in previous quarters. First, effective January 1, 2006, accounting rules required acceleration of stock-based compensation expense recognition when an employee is eligible to retire, instead of over the entire vesting period for these retirement-eligible employees, resulting in recognition of approximately 25% of the expense in the month of grant (second quarter for 3M's annual stock option grant). Second, 3M changed its vesting period from one to three years starting with the May 2005 grant. The third and fourth quarter of 2006 include expense from both the 2005 and 2006 stock option grants, while the third and fourth quarter of 2005 only include expense from the 2005 stock option grant.

- (q) In addition to disclosing results that are determined in accordance with U.S. generally accepted accounting principles (GAAP), the company also discloses non-GAAP results that exclude special items. Special items represent significant charges or credits that are important to an understanding of the company's ongoing operations. The company provides reconciliations of its non-GAAP financial reporting to the most comparable GAAP reporting. The company believes that discussion of results excluding special items provides a useful analysis of ongoing operating trends. Earnings per share and other amounts before special items are not measures recognized under GAAP. The determination of special items may not be comparable to similarly titled measures used by other companies. Refer to the preceding "Supplemental Consolidated Statement of Income Information" for discussion of the special items that impacted 2006 and 2005, and the below note (r) for special items that will impact 2007.
 - (r) The total year 2007 estimate of reported EPS includes the gain on sale of the branded pharmaceuticals business in Europe, which is expected to benefit first quarter and total year 2007 by approximately \$0.60 to \$0.70 per diluted share, net of known restructuring costs.
-

3M Company and Subsidiaries
NEW ACCOUNTING PRONOUNCEMENTS DISCUSSION
(Unaudited)

In September 2006, the Financial Accounting Standards Board issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans". This standard requires employers to recognize the underfunded or overfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position. As a result of the implementation of SFAS No. 158, the Company recognized an after-tax decrease in accumulated other comprehensive income (which is part of stockholders' equity) of approximately \$1.2 billion and \$500 million for the U.S. and international pension benefit plans, respectively, and approximately \$200 million for the postretirement welfare benefit plans. This decrease of \$1.9 billion in the fourth quarter of 2006 in accumulated other comprehensive income is primarily due to our historical discretionary contributions being in excess of book expense. These excess contributions as of our last measurement date of December 31, 2005 were classified in accordance with SFAS No. 87 as a prepaid asset. This change impacts the Consolidated Balance Sheet only, with no impact to net income or cash flows.

In June 2006, the Financial Accounting Standards Board (FASB) issued Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. This interpretation is effective as of January 1, 2007 and the cumulative effects, if any, of applying this interpretation will be recorded as an adjustment to retained earnings as of January 1, 2007. The Company does not expect the adoption of FIN 48 to have a material impact on 3M's consolidated results of operations or financial condition.

3M Company and Subsidiaries
SUPPLEMENTAL CONDENSED CONSOLIDATED BALANCE SHEET INFORMATION
(Dollars in millions)
(Unaudited)

	Dec. 31, 2006	Impact as of Transaction Date since Sept. 30, 2006		
		Pharma impact	Pension	Special items
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,447	\$ 1,209	\$ —	\$ (95)
Other current assets	7,499	(45)	—	44
Total current assets	8,946	1,164	—	(51)
Marketable securities – non-current	166	—	—	—
Investments	314	—	—	—
Property, plant and equipment – net	5,907	(76)	—	(47)
Prepaid pension and postretirement benefits	394	—	(2,496)	—
Goodwill, intangible assets and other assets	5,580	(54)	(24)	(39)
Total assets	<u>\$ 21,307</u>	<u>\$ 1,034</u>	<u>\$ (2,520)</u>	<u>\$ (137)</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
Total current liabilities	7,323	436	—	101
Long-term debt	1,047	—	—	—
Other liabilities	2,965	—	(622)	—
Total liabilities	11,335	436	(622)	101
Total stockholders' equity – net	9,972	598	(1,898)	(238)
Total liabilities and stockholders' equity	<u>\$ 21,307</u>	<u>\$ 1,034</u>	<u>\$ (2,520)</u>	<u>\$ (137)</u>

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From:
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3M Center, Building 225-1S-15
St. Paul, MN 55144-1000

EXHIBIT C-3

8-K 1 a06-22337_18k.htm CURRENT REPORT OF MATERIAL EVENTS OR CORPORATE
CHANGES

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, DC 20549

FORM 8-K

**CURRENT REPORT PURSUANT
TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Date of report (Date of earliest event reported): **October 20, 2006**

3M COMPANY

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation)

File No. 1-3285
(Commission File Number)

41-0417775
(IRS Employer Identification No.)

3M Center, St. Paul, Minnesota
(Address of Principal Executive Offices)

55144-1000
(Zip Code)

(651) 733-1110
(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-
-
-

Item 2.02. Results of Operations and Financial Condition

On October 20, 2006, 3M Company issued a press release reporting its sales and profit results for the third quarter ended September 30, 2006 (attached hereunder as Exhibit 99 and incorporated herein by reference).

Item 9.01. Financial Statements and Exhibits

(d) Exhibits

<u>Exhibit Number</u>	<u>Description</u>
99	Press Release, dated as of October 20, 2006, of 3M Company (attached pursuant to Item 2.02 hereof)

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

3M COMPANY

By: /s/ Gregg M. Larson
Gregg M. Larson,
Associate General Counsel and Secretary

Dated: October 20, 2006

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
99	Press Release, dated as of October 20, 2006, of 3M Company (attached pursuant to Item 2.02 hereof).

EX-99 2 a06-22337_lex99.htm EX-99

Exhibit 99

FOR IMMEDIATE RELEASE

**3M Reports Record Third-Quarter Sales and Earnings per Share;
Company Continues Multi-Quarter Trend of Broad-Based Revenue Growth**

ST. PAUL, Minn. – Oct. 20, 2006 – 3M (NYSE: MMM) today announced its sales and profit results for the third quarter of 2006.

Third-quarter worldwide sales were a record \$5.9 billion, up 8.8 percent compared to the third quarter of 2005. Total local-currency sales increased 7.3 percent, including 1.7 percent from acquisitions. Each business contributed positively to the growth, with local-currency sales increasing 17.1 percent in Safety, Security and Protection Services, 8.2 percent in Display and Graphics, 6.9 percent in Industrial and Transportation, 6 percent in Health Care, 5.8 percent in Consumer and Office and 3.4 percent in Electro and Communications.

Third-quarter net income was \$894 million, or \$1.18 per share, including net gains of \$0.01 per share due to a net benefit from certain income tax adjustments, partially offset by costs related to the company's current efforts to seek strategic alternatives for its branded pharmaceuticals business. In the third quarter of 2005, net income was \$840 million, or \$1.08 per share. Included in these results are stock options related costs of \$0.04 per share in the third quarter of 2006 and \$0.02 per share in the third quarter of 2005(a).

"This was a strong performance by the 3M team, with broad sales growth across our portfolio," said George W. Buckley, 3M chairman of the board, president and CEO. "All six of our businesses posted positive local currency growth for the fifth consecutive quarter, led by Safety, Security and Protection Services at over 17 percent growth. In addition, we continued to drive growth via leveraging our world-class geographic infrastructure."

Local-currency growth was 9.5 percent in Asia Pacific, 8.4 percent in Europe, 6.3 percent in Latin America and 6.2 percent in the United States. Worldwide sales in dollars increased 8.8 percent, reaching an all-time quarterly high, and earnings per share improved 9.3 percent versus last year's third quarter.

Buckley also commented on 3M's LCD films business, which is part of the Display and Graphics segment. "As anticipated, LCD industry inventories have returned to more normal levels and our growth in this business accelerated in the third quarter as consumers purchased more LCD televisions. In addition, we saw continued manufacturing process improvement in this business as the quarter progressed and the new production line is now behaving in line with our expectations."

Buckley continued. "Looking ahead, we will continue to follow our agenda for accelerating innovation and growth via investments in R&D, sales and marketing, growth-oriented capital investment and selected acquisitions. These investments will be funded over time by productivity improvement efforts, such as global strategic sourcing and lean six sigma, to relentlessly drive out cost, simplify our supply chains and improve customer service."

For the fourth quarter of 2006, the company expects organic local-currency sales growth of 4 to 8 percent. Acquisitions are expected to add approximately 1.5 percent to fourth-quarter sales growth. The company expects fourth-quarter earnings per share will be in the range of \$1.10 to \$1.16, excluding an estimated \$0.12 to \$0.13 per share of one-time acquisition costs related to the purchase

of Brontes Technologies, Inc.(b). Also included in estimated fourth quarter earnings is \$0.04 per share cost from stock options expensing. In the fourth quarter of 2005, before a cumulative effect of accounting change, 3M earned \$1.01 per share, including \$0.02 per share from stock options expensing.

Buckley and Patrick D. Campbell, senior vice president and chief financial officer, will conduct an investor teleconference at 9 a.m. Eastern Time (8 a.m. Central Time) today. Investors can access a web cast of this conference, along with related charts and materials, at <http://investor.3M.com>.

- (a) 3M adopted Statement of Financial Accounting Standards No. 123R effective Jan. 1, 2006, using the modified retrospective method, with prior periods adjusted to give effect to the fair-value-based method of accounting for stock option awards granted in fiscal years beginning on or after Jan. 1, 1995.
- (b) On Oct. 17, 2006, the company announced its intent to acquire Brontes Technologies Inc., a Lexington, Mass.-based developer of proprietary 3-D imaging technology for \$95 million in cash. The transaction will result in an estimated fourth-quarter 2006 charge in the range of \$0.12 to \$0.13 per share, reflecting the one-time write-off of in-process research and development costs. Financial accounting standards require companies to expense such costs upon acquisition.

Forward-Looking Statements

This new release contains forward-looking information (within the meaning of the Private Securities Litigation Reform Act of 1995) about the company's financial results and estimates, business prospects, and products under development that involve substantial risks and uncertainties. You can identify these statements by the use of words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "will," and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. Among the factors that could cause actual results to differ materially are the following: (1) worldwide economic conditions; (2) competitive conditions and customer preferences; (3) foreign currency exchange rates and fluctuations in those rates; (4) the timing and acceptance of new product offerings; (5) the availability and cost of purchased components, compounds, raw materials and energy (including oil and natural gas and their derivatives) due to shortages, increased demand or supply interruptions (including those caused by natural and other disasters and other events); (6) the impact of acquisitions, strategic alliances, divestitures, and other unusual events resulting from portfolio management actions and other evolving business strategies, and possible organizational restructuring; (7) generating less productivity improvements than estimated; and (8) legal proceedings, including significant developments that could occur in the legal and regulatory proceedings described in the company's Annual Report on Form 10-K for the year ended Dec. 31, 2005 and the Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006 and June 30, 2006 (the "Reports"). Changes in such assumptions or factors could produce significantly different results. A further description of these factors is located in the Reports under Part I, Item 1A (Annual Report) and Part II, Item 1A (Quarterly Report), "Risk Factors." The information contained in this news release is as of the date indicated. The company assumes no obligation to update any forward-looking statements contained in this news release as a result of new information or future events or developments.

About 3M – A Global, Diversified Technology Company

Every day, 3M people find new ways to make amazing things happen. Wherever they are, whatever they do, the company's customers know they can rely on 3M to help make their lives better. 3M's brands include Scotch, Post-it, Scotchgard, Thinsulate, Scotch-Brite, Filtrete, Command and Vikuiti. Serving customers in more than 200 countries around the world, the people of 3M use their expertise, technologies and global strength to lead in major markets including consumer and office; display and graphics; electronics and telecommunications; safety, security and protection services; health care; industrial and transportation.

Scotch, Post-it, Scotchgard, Thinsulate, Scotch-Brite, Filtrete, Command and Vikuiti are trademarks of 3M.

3M Company and Subsidiaries
CONSOLIDATED STATEMENT OF INCOME
(Millions, except per-share amounts)
(Unaudited)

	Three-months ended September 30		Nine-months ended September 30	
	2006	2005	2006	2005
Net sales	\$ 5,858	\$ 5,382	\$ 17,141	\$ 15,842
Operating expenses				
Cost of sales	2,990	2,635	8,551	7,786
Selling, general and administrative expenses	1,186	1,166	3,691	3,440
Research, development and related expenses	340	314	1,013	952
Total	4,516	4,115	13,255	12,178
Operating income	1,342	1,267	3,886	3,664
Interest expense and income				
Interest expense	37	20	84	59
Interest income	(13)	(13)	(35)	(45)
Total	24	7	49	14
Income before income taxes and minority interest	1,318	1,260	3,837	3,650
Provision for income taxes	412	407	1,127	1,245
Minority interest	12	13	35	40
Net income	\$ 894	\$ 840	\$ 2,675	\$ 2,365
Weighted average common shares outstanding--basic	745.2	762.2	751.6	767.3
Earnings per share--basic	\$ 1.20	\$ 1.10	\$ 3.56	\$ 3.08
Weighted average common shares outstanding-- diluted	756.2	777.1	765.1	784.5
Earnings per share--diluted	\$ 1.18	\$ 1.08	\$ 3.50	\$ 3.01
Cash dividends paid per common share	\$ 0.46	\$ 0.42	\$ 1.38	\$ 1.26

3M Company and Subsidiaries
SUPPLEMENTAL CONSOLIDATED STATEMENT OF INCOME INFORMATION
(Millions, except per-share amounts)
(Unaudited)

	Three-months ended September 30, 2006			Three-months ended September 30, 2005		
	Excluding special items (c)	Special items (c)	Reported total	Excluding special items (c)	Special items (c)	Reported total
Net sales	\$ 5,858	\$ —	\$ 5,858	\$ 5,382	\$ —	\$ 5,382
Operating expenses						
Cost of sales	2,990	—	2,990	2,635	—	2,635
Selling, general and administrative expenses	1,173	13	1,186	1,166	—	1,166
Research, development and related expenses	340	—	340	314	—	314
Total	4,503	13	4,516	4,115	—	4,115
Operating income (loss)	1,355	(13)	1,342	1,267	—	1,267
Interest expense and (income), net	24	—	24	7	—	7
Income (loss) before income taxes and minority interest	1,331	(13)	1,318	1,260	—	1,260
Provision (benefit) for income taxes	435	(23)	412	407	—	407
Effective tax rate	32.7%	—	31.3%	32.3%	—	32.3%
Minority interest	12	—	12	13	—	13
Net income (loss)	\$ 884	\$ 10	\$ 894	\$ 840	\$ —	\$ 840
Weighted average diluted shares	756.2	756.2	756.2	777.1	777.1	777.1
Net income per diluted share	\$ 1.17	\$ 0.01	\$ 1.18	\$ 1.08	\$ —	\$ 1.08

(c) In addition to disclosing results that are determined in accordance with U.S. generally accepted accounting principles (GAAP), the company also discloses non-GAAP results that exclude special items. Special items represent significant charges or credits that are important to an understanding of the company's ongoing operations. The company provides

reconciliations of its non-GAAP financial reporting to the most comparable GAAP reporting. The company believes that discussion of results excluding special items provides a useful analysis of ongoing operating trends. Earnings per share and other amounts before special items are not measures recognized under GAAP. The determination of special items may not be comparable to similarly titled measures used by other companies.

In the third quarter of 2006, net income included net gains of \$10 million due to a net benefit from certain income tax adjustments, partially offset by costs related to the company's current efforts to seek strategic alternatives for its branded pharmaceuticals business.

3M Company and Subsidiaries
SUPPLEMENTAL CONSOLIDATED STATEMENT OF INCOME INFORMATION
(Millions, except per-share amounts)
(Unaudited)

	Nine-months ended September 30, 2006			Nine-months ended September 30, 2005		
	Excluding special	Special	Reported	Excluding special	Special items	Reported
	items (d)	items (d)	total	items (d)	(d)	total
Net sales	\$ 17,141	\$ —	\$ 17,141	\$ 15,842	\$ —	\$ 15,842
Operating expenses						
Cost of sales	8,551	—	8,551	7,786	—	7,786
Selling, general and administrative expenses	3,629	62	3,691	3,440	—	3,440
Research, development and related expenses	1,013	—	1,013	952	—	952
Total	13,193	62	13,255	12,178	—	12,178
Operating income (loss)	3,948	(62)	3,886	3,664	—	3,664
Interest expense and (income), net	49	—	49	14	—	14
Income (loss) before income taxes and minority interest	3,899	(62)	3,837	3,650	—	3,650
Provision (benefit) for income taxes	1,273	(146)	1,127	1,170	75	1,245
Effective tax rate	32.7 %	—	29.4 %	32.0 %	—	34.1 %
Minority interest	35	—	35	40	—	40
Net income (loss)	\$ 2,591	\$ 84	\$ 2,675	\$ 2,440	\$ (75)	\$ 2,365
Weighted average diluted shares	765.1	765.1	765.1	784.5	784.5	784.5
Net income per diluted share	\$ 3.39	\$ 0.11	\$ 3.50	\$ 3.11	\$ (0.10)	\$ 3.01

(d) In addition to disclosing results that are determined in accordance with U.S. generally accepted accounting principles (GAAP), the company also discloses non-GAAP results that exclude special items. Special items represent significant charges or credits that are important to an understanding of the company's ongoing operations. The company provides reconciliations of its non-GAAP financial reporting to the most comparable GAAP reporting. The company

believes that discussion of results excluding special items provides a useful analysis of ongoing operating trends. Earnings per share and other amounts before special items are not measures recognized under GAAP. The determination of special items may not be comparable to similarly titled measures used by other companies.

In the second quarter of 2006, net income included net gains of \$74 million due to a net benefit from certain income tax adjustments, partially offset by settlement costs of a previously disclosed class action and costs related to the company's current efforts to seek strategic alternatives for its branded pharmaceuticals business. Refer to 3M's Form 10-Q for the quarterly period ended June 30, 2006 for further discussion of these items. Reference the preceding Note (c) for discussion of the net gains of \$10 million included in net income that impacted the third quarter of 2006.

In the second quarter of 2005, the Company announced its intent to reinvest \$1.7 billion of foreign earnings in the United States pursuant to the American Jobs Creation Act of 2004. As a consequence, in the second quarter of 2005, 3M recorded a charge of \$75 million after-tax.

3M Company and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEET
(Dollars in millions)
(Unaudited)

	Sep. 30, 2006	Dec. 31, 2005	Sep. 30, 2005
ASSETS			
Current assets			
Cash and cash equivalents	\$ 999	\$ 1,072	\$ 1,848
Marketable securities—current	130	—	25
Accounts receivable—net	3,332	2,838	3,061
Inventories	2,632	2,162	2,098
Other current assets	1,216	1,043	1,135
Total current assets	8,309	7,115	8,167
Marketable securities—non-current	112	—	—
Investments	287	272	275
Property, plant and equipment—net	5,782	5,593	5,604
Prepaid pension and postretirement benefits	2,959	2,905	2,775
Goodwill, intangible assets and other assets	5,234	4,656	4,560
Total assets	<u>\$ 22,683</u>	<u>\$ 20,541</u>	<u>\$ 21,381</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings and current portion of long-term debt	\$ 2,570	\$ 1,072	\$ 2,582
Accounts payable	1,373	1,256	1,249
Accrued payroll	535	469	520
Accrued income taxes	848	989	1,008
Other current liabilities	1,537	1,452	1,520
Total current liabilities	6,863	5,238	6,879
Long-term debt	1,230	1,309	688
Other liabilities	3,607	3,599	3,271
Total liabilities	11,700	10,146	10,838
Total stockholders' equity—net	10,983	10,395	10,543
Shares outstanding			
September 30, 2006: 736,366,111 shares			
December 31, 2005: 754,538,387 shares			
September 30, 2005: 759,932,466 shares			
Total liabilities and stockholders' equity	<u>\$ 22,683</u>	<u>\$ 20,541</u>	<u>\$ 21,381</u>

3M Company and Subsidiaries
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Dollars in millions)
(Unaudited)

	Nine-months ended September 30	
	2006	2005
SUMMARY OF CASH FLOWS:		
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 2,517	\$ 3,038
Cash flows from investing activities:		
Purchases of property, plant and equipment	(763)	(660)
Acquisitions, net of cash acquired	(468)	(1,264)
Other investing activities	(198)	(40)
NET CASH USED IN INVESTING ACTIVITIES	(1,429)	(1,964)
Cash flows from financing activities:		
Change in debt	1,419	408
Purchases of treasury stock	(2,021)	(1,809)
Reissuances of treasury stock	426	467
Dividends paid to stockholders	(1,037)	(968)
Other financing activities	(25)	32
NET CASH USED IN FINANCING ACTIVITIES	(1,238)	(1,870)
Effect of exchange rate changes on cash	77	(113)
Net increase (decrease) in cash and cash equivalents	(73)	(909)
Cash and cash equivalents at beginning of period	1,072	2,757
Cash and cash equivalents at end of period	\$ 999	\$ 1,848

3M Company and Subsidiaries
SUPPLEMENTAL CASH FLOW AND
OTHER SUPPLEMENTAL FINANCIAL INFORMATION
(Dollars in millions)
(Unaudited)

	Nine-months ended September 30	
	2006	2005
NON-GAAP MEASURES		
Free Cash Flow:		
Net cash provided by operating activities	\$ 2,517	\$ 3,038
Purchases of property, plant and equipment	(763)	(660)
Free Cash Flow (e)	<u>\$ 1,754</u>	<u>\$ 2,378</u>
OTHER NON-GAAP MEASURES:		
Net Working Capital Turns (f)	5.1	5.5

(e) Free cash flow is not defined under U.S. generally accepted accounting principles (GAAP). Therefore, it should not be considered a substitute for income or cash flow data prepared in accordance with U.S. GAAP and may not be comparable to similarly titled measures used by other companies. The company defines free cash flow as net cash provided by operating activities less purchases of property, plant and equipment. It should not be inferred that the entire free cash flow amount is available for discretionary expenditures. The company believes free cash flow is a useful measure of performance and uses this measure as an indication of the strength of the company and its ability to generate cash.

(f) The company uses various working capital measures that place emphasis and focus on certain working capital assets and liabilities. 3M's net working capital index is defined as quarterly net sales multiplied by four, divided by ending net accounts receivable plus inventory less accounts payable. This measure is not recognized under U.S. generally accepted accounting principles and may not be comparable to similarly titled measures used by other companies.

3M Company and Subsidiaries
SALES CHANGE ANALYSIS
(Unaudited)

Three-months ended September 30, 2006

Sales Change Analysis By Geographic Area	United States	Inter- national	Worldwide
Volume—organic	3.4 %	8.6 %	6.5 %
Volume—acquisitions	1.8	1.7	1.7
Volume—total	5.2	10.3	8.2
Price	1.0	(2.2)	(0.9)
Total local-currency sales	6.2	8.1	7.3
Translation	—	2.5	1.5
Total sales change	6.2 %	10.6 %	8.8 %
Worldwide Sales Change Analysis By Business Segment	Local- currency Sales	Trans- lation	Total Sales Change
Industrial & Transportation	6.9 %	1.8 %	8.7 %
Health Care	6.0	1.9	7.9
Display and Graphics	8.2	0.7	8.9
Consumer and Office	5.8	1.2	7.0
Electro and Communications	3.4	1.7	5.1
Safety, Security and Protection Services	17.1	2.1	19.2
Total sales change	7.3 %	1.5 %	8.8 %

Note: Industrial and Transportation includes a 2.4% benefit from acquisitions, primarily CUNO. Safety, Security and Protection Services includes a 6.0% benefit from acquisitions, primarily Security Printing and Systems Limited.

3M Company and Subsidiaries
SALES CHANGE ANALYSIS
(Unaudited)

Nine-months ended September 30, 2006

Sales Change Analysis By Geographic Area	United States	Inter- national	Worldwide
Volume—organic	3.9%	8.2%	6.5%
Volume—acquisitions	2.9	1.8	2.2
Volume—total	6.8	10.0	8.7
Price	1.6	(1.7)	(0.4)
Total local-currency sales	8.4	8.3	8.3
Translation	—	(0.2)	(0.1)
Total sales change	8.4%	8.1%	8.2%
Worldwide Sales Change Analysis By Business Segment	Local- currency Sales	Trans- lation	Total Sales Change
Industrial & Transportation	10.6%	0.0%	10.6%
Health Care	5.0	(0.3)	4.7
Display and Graphics	8.1	(0.1)	8.0
Consumer and Office	6.3	0.2	6.5
Electro and Communications	6.6	0.0	6.6
Safety, Security and Protection Services	13.5	0.2	13.7
Total sales change	8.3%	(0.1%)	8.2%

Note: Industrial and Transportation includes a 5.9% benefit from acquisitions, primarily CUNO. Safety, Security and Protection Services includes a 2.0% benefit from acquisitions, primarily Security Printing and Systems Limited.

3M Company and Subsidiaries
BUSINESS SEGMENTS
(Dollars in millions)
(Unaudited)

BUSINESS SEGMENT INFORMATION (Millions)	Three-months ended September 30		Nine-months ended September 30	
	2006	2005	2006	2005
NET SALES				
Industrial & Transportation	\$ 1,679	\$ 1,544	\$ 5,071	\$ 4,586
Health Care	998	926	2,964	2,831
Display and Graphics	992	910	2,819	2,610
Consumer and Office	867	810	2,414	2,268
Electro and Communications	628	597	1,864	1,748
Safety, Security and Protection Services	682	573	1,966	1,729
Corporate and Unallocated	12	22	43	70
Total Company	<u>\$ 5,858</u>	<u>\$ 5,382</u>	<u>\$ 17,141</u>	<u>\$ 15,842</u>
OPERATING INCOME				
Industrial & Transportation	\$ 340	\$ 293	\$ 1,042	\$ 913
Health Care	287	273	846	829
Display and Graphics	300	314	837	876
Consumer and Office	181	169	438	419
Electro and Communications	124	124	374	334
Safety, Security and Protection Services	148	137	457	410
Corporate and Unallocated	(38)	(43)	(108)	(117)
Total Company	<u>\$ 1,342</u>	<u>\$ 1,267</u>	<u>\$ 3,886</u>	<u>\$ 3,664</u>

SFAS 123R Stock Option Expense Impact
(Dollars in millions, except per share amounts)
(Unaudited)

	Three months ended		
	September 30		
	2006	2005	Difference
Cost of sales	\$ 10	\$ 3	\$ 7
% to Sales	0.2 %	0.1 %	0.1 %
Selling, general and administrative expenses	\$ 25	\$ 15	\$ 10
% to Sales	0.4 %	0.2 %	0.2 %
Research, development and related expenses	\$ 9	\$ 5	\$ 4
% to Sales	0.2 %	0.1 %	0.1 %
Operating Income	\$ 44	\$ 23	\$ 21
% to Sales	0.8 %	0.4 %	0.4 %

SFAS 123R Stock Option Expense Impact
(Dollars in millions, except per share amounts)
(Unaudited)

	Nine months ended September 30		
	2006	2005	Difference
Cost of sales	\$ 33	\$ 23	\$ 10
% to Sales	0.1 %	0.1 %	— %
Selling, general and administrative expenses	\$ 98	\$ 83	\$ 15
% to Sales	0.6 %	0.5 %	0.1 %
Research, development and related expenses	\$ 31	\$ 27	\$ 4
% to Sales	0.2 %	0.2 %	— %
Operating Income	\$ 162	\$ 133	\$ 29
% to Sales	0.9 %	0.8 %	0.1 %

Business Segment Stock Option Expense
(Dollars in millions)
(Unaudited)

	Three-months ended September 30			
	2006	% to Sales	2005	% to Sales
Industrial & Transportation	\$ 10	0.6 %	\$ 7	0.5 %
Health Care	8	0.8 %	5	0.5 %
Display and Graphics	6	0.5 %	3	0.3 %
Consumer and Office	5	0.6 %	3	0.4 %
Electro and Communications	4	0.6 %	2	0.4 %
Safety, Security and Protection Services	3	0.6 %	3	0.4 %
Corporate	8	—	—	—
Total Company	<u>\$ 44</u>	<u>0.8 %</u>	<u>\$ 23</u>	<u>0.4 %</u>

Business Segment Stock Option Expense
(Dollars in millions)
(Unaudited)

	Nine months ended September 30			
	2006	% to Sales	2005	% to Sales
Industrial & Transportation	\$ 40	0.8 %	\$ 40	0.9 %
Health Care	34	1.1 %	30	1.1 %
Display and Graphics	22	0.8 %	17	0.6 %
Consumer and Office	19	0.8 %	18	0.8 %
Electro and Communications	16	0.9 %	14	0.8 %
Safety, Security and Protection Services	16	0.8 %	14	0.8 %
Corporate	15	—	—	—
Total Company	<u>\$ 162</u>	<u>0.9 %</u>	<u>\$ 133</u>	<u>0.8 %</u>

Quarterly Diluted Earnings Per Share Stock Option Expense
(Unaudited)

2004 Reported	Q1	Q2	Q3	Q4	Total
EPS as originally reported	\$ 0.90	\$ 0.97	\$ 0.97	\$ 0.91	\$ 3.75
SFAS 123R impact	\$ (0.03)	\$ (0.04)	\$ (0.06)	\$ (0.06)	\$ (0.19)
EPS with SFAS123R impact	\$ 0.87	\$ 0.93	\$ 0.91	\$ 0.85	\$ 3.56
2005 Reported	Q1	Q2	Q3	Q4	Total
EPS as originally reported	\$ 1.03	\$ 1.00	\$ 1.10	\$ 0.99	\$ 4.12
SFAS 123R impact	\$ (0.06)	\$ (0.04)	\$ (0.02)	\$ (0.02)	\$ (0.14)
EPS with SFAS123R impact	\$ 0.97	\$ 0.96	\$ 1.08	\$ 0.97	\$ 3.98
2005—Excluding Special Items (g)	Q1	Q2	Q3	Q4	Total
EPS as originally reported	\$ 1.03	\$ 1.09	\$ 1.10	\$ 1.04	\$ 4.26
SFAS 123R impact	\$ (0.06)	\$ (0.04)	\$ (0.02)	\$ (0.02)	\$ (0.14)
EPS with SFAS123R impact	\$ 0.97	\$ 1.06	\$ 1.08	\$ 1.01	\$ 4.12
2006—Reported	Q1	Q2	Q3	Q4	Total
Diluted EPS/Guidance	\$ 1.17	\$ 1.15	\$ 1.18	\$ 0.97 to \$ 1.04	\$ 4.47 to \$ 4.54
Estimated SFAS 123R impact included in EPS/guidance	\$ (0.02)	\$ (0.07)	\$ (0.04)	\$ (0.04)	\$ (0.17)
2006—Excluding Special Items (g)	Q1	Q2	Q3	Q4	Total
Diluted EPS/Guidance	\$ 1.17	\$ 1.05	\$ 1.17	\$ 1.10 to \$ 1.16	\$ 4.49 to \$ 4.55
Estimated SFAS 123R impact included in EPS/guidance	\$ (0.02)	\$ (0.07)	\$ (0.04)	\$ (0.04)	\$ (0.17)

(g) In addition to disclosing results that are determined in accordance with U.S. generally accepted accounting principles (GAAP), the company also discloses non-GAAP results that exclude special items. Special items represent significant charges or credits that are important to an understanding of the company's ongoing operations. The company provides reconciliations of its non-GAAP financial reporting to the most comparable GAAP reporting (reconciliations for the second and fourth quarter of 2005 were provided in Form 8-K's filed on July 18, 2005 and January 24, 2006, respectively). The company believes that discussion of results excluding special items provides a useful analysis of ongoing operating trends. Earnings per share and other amounts before special items are not measures recognized under GAAP. The determination of special items may not be comparable to similarly titled measures used by other companies. Refer to the preceding Note (b) for discussion of an acquisition that will impact fourth quarter 2006 results. The fourth quarter 2006 estimates exclude any potential costs related to efforts to seek strategic alternatives for the branded pharmaceuticals business and associated restructuring actions. Refer to the preceding Notes (c) and (d) for discussion of the special items that impacted the three months ended September 30, 2006, June 30, 2006 and June 30, 2005. In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional

Asset Retirement Obligations—an interpretation of FASB Statement No. 143 (“FIN 47”). In adopting FIN 47 in the fourth quarter of 2005, 3M recorded a non-cash charge of \$35 million after-tax, as a cumulative effect of change in accounting principle. This charge represents conditional retirement obligations associated with 3M’s long-lived assets.
